

Registered number: SC220243

Babcock Marine (Clyde) Limited  
Annual report and financial statements  
for the year ended 31 March 2014

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# **Babcock Marine (Clyde) Limited**

## **Annual report and financial statements for the year ended 31 March 2014**

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# **Babcock Marine (Clyde) Limited**

## **Directors and advisers**

### **Directors**

A A Bethel CBE

J W Howie

F Martinelli

P O Merriman

I S Urquhart

### **Joint company secretaries**

J D T Greig

Babcock Corporate Secretaries Limited

### **Registered office**

Rosyth Business Park

Rosyth

Dunfermline

Fife

KY11 2YD

Registered Number SC220243

### **Independent auditors**

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

141 Bothwell Street

Glasgow

G2 7EQ

### **Bankers**

The Royal Bank of Scotland plc

Dunfermline Branch

52-54 East Port

Dunfermline

KY12 7HB

## **Babcock Marine (Clyde) Limited**

### **Strategic report for the year ended 31 March 2014**

The directors present the strategic report on the company for the year ended 31 March 2014.

#### **Review of the business**

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 has been announced as the Home of the UK Submarine Service and is the Submarine Centre of Specialisation (SMCoS) in the UK.

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 maritime change 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 31 March 2013 was the Waterfront Support Modernisation Initiative ("WSMI") which was intended to be replaced by the Maritime Support Delivery Framework ("MSDF") contract from 1 April 2013. However, the delay to the agreement of the MSDF contract led to a 1-year WSMI Extension being agreed to 31 March 2014 to enable MSDF negotiations to continue. As well as longer term cost reduction initiatives being developed, the Company has continued to reduce the cost of its underlying operations under the WSMI Extension contract during the financial year to 31 March 2014 and this has largely determined the Company's profitability for the period.

As part of the multi-year plan to reduce its overhead cost base, integration of support service functions with other parts of Babcock's business at both divisional and group level is continuing.

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 first full year of operation successfully with committed cost reductions being delivered whilst maintaining the contracted level of service.

In respect of health and safety, the year to March 2014 saw a record low in the number of RIDDOR reportable incidents at HMNB Clyde, while near miss reporting continued to rise to 127% of the previous year's total.

## Babcock Marine (Clyde) Limited

### Strategic report for the year ended 31 March 2014 (continued)

#### Review of the business (continued)

The Company continued to proactively engage with the workforce through events such as the Apprentice and Young Person's Workshop and HSE Exhibition, and the second Clyde Safety Excellence Awards as well as a number of safety awareness campaigns.

The improvement in safety was also recognised externally with a Silver Award from the Royal Society for the Prevention of Accidents (RoSPA).

#### Results and performance

The audited financial statements for the year ended 31 March 2014 are set out on pages 12 to 25. The profit for the year after taxation was £5,543,000 (2013: £5,195,000).

#### Key performance indicators

The marine activities of the group are managed on a divisional basis. We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2013 / 14	2012 / 13	
Revenue Growth	13%	6%	Increase in revenue when compared to that of the previous year.  Revenue continues to grow for 2013/14 due to further injection of scope by MoD into the WSMI extension contract and the impact of the first full year of operation of the SWS Alliance contract. This has also led to growth being higher than 2012/13.
Operating Return on Revenue (ORR)	6%	6%	Operating profit expressed as a percentage of revenue.  Margin has remained in line with 2012/13 as the increased margin from performance on the WSMI extension contract has been offset by additional investment in bid work for nuclear infrastructure.

## **Babcock Marine (Clyde) Limited**

### **Strategic report for the year ended 31 March 2014 (continued)**

Order Book	£1,033m	£1,124m	Includes total value of signed contracts and prudent estimate of value of framework contracts.  Reduction in order book primarily reflects the progression of WSMI extension and SWS Alliance contracts.
Total injuries rate per 100,000 hours worked	4.62	4.61	Health and Safety is a core value for the Company. The data includes all reported injuries.  Whilst reported injuries performance has remained in line with 2012/13, the number of serious events (RIDDOR's) have fallen by approximately 40%.
Number of apprentices	20	37	The level of apprentice intake reflects the forecast future programme of work recognising the current demographics of the workforce.

The growth and performance of Marine and Technology, the division of Babcock International Group PLC of which the Company forms part, is discussed on pages 20 to 25 and 44 to 51 of the group's annual report, which does not form part of this report.

#### **Principal risk 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 Babcock International Group PLC ("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 64 to 71 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 2014 (continued)**

#### **Future developments**

Work has continued during the year to progress the development of the Maritime Support Delivery Framework ("MSDF") contract which will be the prime delivery vehicle for the ToBA. This contract will consolidate the majority of the MoD allocated work and deliver cost reduction benefits to the MoD. Contract agreement is expected during the first half of 2014/15 financial year.

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 expand on and sustain the successes from the previous year, with a focus on the introduction of more behavioural elements in the safety culture improvement programme, and with the safety team looking at a targeted reduction in the number of unsafe conditions reported via self-regulation in business areas.

On behalf of the board



P O Merriman  
**Director**  
27 June 2014

# **Babcock Marine (Clyde) Limited**

## **Directors' report for the year ended 31 March 2014**

The directors present their report and the audited financial statements of Babcock Marine (Clyde) Ltd for the year ended 31 March 2014.

### **Directors**

The directors who served during the whole of the year and up to the date of signing the financial statements, unless otherwise stated, were as follows:

A A Bethel CBE

J W Howie

F Martinelli

P O Merriman

I S Urquhart

### **Future developments**

Likely future developments in the business of the Company are discussed in the strategic report on page 5.

### **Dividends**

An interim dividend of £18,500,000 was paid during the year (2013: £nil) and the directors recommend that no final dividend is paid (2013: £nil).

### **Qualifying third party indemnity provisions**

Under the Articles of Association of the company and subject to the provisions of the Companies Act 2006, each director and officer of the company is, and was during the year ended 31 March 2014, entitled to be indemnified by the company against any loss or liability incurred by him in defending any proceedings in which judgment is given in his favour or in which he is acquitted or in connection with any application in which relief is granted to him by the court from any liability.

Babcock International Group PLC also provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of directors 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 2013 and remain in force.

### **Employment of disabled persons**

The policy and practice of the Company is to seek to encourage and assist the employment of disabled persons who are able to perform their duties without exposing themselves or others to abnormal risks. The training, career development and promotion opportunities of the Company's disabled employees are equal to those of their able-bodied colleagues. Arrangements are made, wherever possible, for the continued employment of employees becoming disabled whilst working for the Company. If necessary, retraining is offered to such individuals to allow each of them to perform work suited to their aptitudes and abilities.



## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2014 (continued)**

#### **Employee involvement**

The Company continues to invest in a range of employee development programmes to ensure that its people are developed to meet the future business challenges.

During the year the Company continued its ongoing review of strategy for engaging with its employees. This year's leadership conference extended the engagement theme by focussing on the Joint Business Plan for the Naval Base which included both Company and MOD employees as delegates at the conference itself.

The company continues to provide employees with relevant information on matters concerning them via in-house publications and notice boards. This information contains financial and non-financial measures and is updated on a monthly basis.

#### **Financial risk management**

Financial risk is managed in accordance with Group policies and procedures which are discussed on pages 136 to 139 and Note 2 of the annual report of Babcock International Group PLC which does not form part of this report.

#### **Directors' responsibilities statement**

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 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.

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.

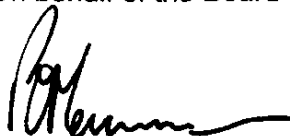
## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2014 (continued)**

#### **Statement of disclosure of information to auditors**

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) 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 that information.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'P O Merriman', with a long horizontal flourish extending to the right.

P O Merriman

**Director**

27 June 2014

## **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 the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

##### **What we have audited**

The financial statements, which are prepared by Babcock Marine (Clyde) Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account for the year then ended;
- the accounting policies; and
- the notes to the financial statements, which include other explanatory information.

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

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.

##### **What an audit of financial statements involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("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.

## **Babcock Marine (Clyde) Limited**

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

#### **What an audit of financial statements involves (continued)**

In addition, we read all the financial and non-financial information in the Annual report and financial statements (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.

#### **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.

#### **Responsibilities for the financial statements and the audit**

##### **Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement, 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 ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Babcock Marine (Clyde) Limited**

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

#### **Our responsibilities and those of the directors (continued)**

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



Martin Cowie (Senior Statutory Auditor)  
For and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
27 June 2014

## Babcock Marine (Clyde) Limited

### Profit and loss account for the year ended 31 March 2014

	Note	2014 £000	2013 £000
<b>Turnover</b>	2	<b>126,076</b>	111,491
Cost of sales		<b>(115,661)</b>	(102,730)
<b>Gross profit</b>		<b>10,415</b>	8,761
Administrative expenses		<b>(3,275)</b>	(2,007)
<b>Operating profit</b>	3	<b>7,140</b>	6,754
Interest receivable and similar income	4	<b>65</b>	79
<b>Profit on ordinary activities before taxation</b>		<b>7,205</b>	6,833
Tax on profit on ordinary activities	7	<b>(1,662)</b>	(1,638)
<b>Profit for the financial year</b>	13	<b>5,543</b>	5,195

The notes on pages 17 to 25 form an integral part of these financial statements.

All items dealt with in arriving at operating profit above relate to continuing operations.

The Company has no recognised gains and losses other than the profit above and therefore no separate statement of total recognised gains and losses has been presented.

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.

# Babcock Marine (Clyde) Limited

## Balance sheet as at 31 March 2014

Company registration number SC220243

	Note	2014 £000	2013 £000
<b>Current assets</b>			
Stock	8	191	171
Debtors	9	48,344	60,834
Cash at bank and in hand		10,802	13,020
		59,337	74,025
<b>Creditors: amounts falling due within one year</b>	10	(24,618)	(26,349)
<b>Net current assets</b>		34,719	47,676
<b>Total assets less current liabilities</b>		34,719	47,676
<b>Capital and reserves</b>			
Called up share capital	12	-	-
Profit and loss account	13	34,719	47,676
<b>Total shareholders' funds</b>	14	34,719	47,676

The financial statements on pages 12 to 25 were approved by the board of directors on 27 June 2014 and were signed on its behalf by:



P O Merriman  
Director

# **Babcock Marine (Clyde) Limited**

## **Accounting Policies**

### **Basis of accounting**

These financial statements are prepared under the historical cost convention and in accordance with the Companies Act 2006, the accounting policies set out below, in accordance with applicable accounting standards in the United Kingdom and on the basis that the Company will continue as a going concern. All principal accounting policies have been applied consistently throughout the year.

### **Long-term contracts**

Long-term contracts are those which extend over more than one accounting period. The amounts recoverable on these long-term contracts, which is included in debtors, is stated at the net sales value of the work done less amounts invoiced for progress payments on account. Any unpaid invoices for progress payments are shown as trade debtors. Management reviews are conducted monthly to assess progress against savings initiatives. Profit is recognised in relation to the expected level of savings made in relation to the target savings in the contract having made allowance for future risks and uncertainties.

### **Turnover**

The majority of turnover is calculated as costs incurred to date, net of value added tax, plus profit taken to date on individual contracts. An appropriate level of profit is attributed to the contract if the final outcome can be assessed with reasonable certainty. An expected loss on a contract is recognised immediately. Other turnover represents the invoiced value of services supplied, net of value added tax and trade discounts.

### **Leases**

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

### **Pension costs**

The Company operates a defined benefit pension scheme, the Babcock Naval Services Pension Scheme. The scheme is administered by a corporate trustee and the funds are held separately from Babcock International Group PLC (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. Contract pricing is varied to reflect the employer contributions established by periodic actuarial valuations and the Ministry of Defence provides any deficit funding payments directly to the scheme. In these circumstances, the Company bears no commercial risk in relation to the scheme and it is therefore appropriate to account for the scheme in line with the requirements of a defined contribution scheme, rather than the requirements of a defined benefit scheme. Accordingly, the cost of the employer contributions charged to the profit and loss account is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.



# **Babcock Marine (Clyde) Limited**

## **Accounting Policies (continued)**

### **Pension costs (continued)**

The Company is a contributing employer to the Rosyth Royal Dockyard Pension Scheme and BIG Passport Schemes which are defined benefit schemes operated by fellow Group undertakings. These schemes are administered by corporate trustees and the funds are held separately from the Group. The schemes are multi-employer and as such the Company is unable to identify its share of the underlying assets and liabilities in the schemes. The Company therefore does not believe that the accounting treatment for a defined benefit scheme is appropriate and is accounting for it in line with that required for a defined contribution scheme. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The Company also contributes to defined contribution pension plans. Obligations for these payments, and for the payments to the Babcock Naval Services Pension Scheme, Rosyth Royal Dockyard Pension Scheme and the BIG Passport Scheme are recognised as an expense as incurred.

### **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 by the balance sheet date. The taxation liabilities of certain group companies may be reduced, wholly or in part, by the surrender of losses by fellow group companies. The decision to charge group relief is made on a case by case basis.

### **Deferred taxation**

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 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.

### **Stock**

Stock is stated at the lower of cost (on a first in first out basis) and net realisable value.

## **Babcock Marine (Clyde) Limited**

### **Accounting Policies (continued)**

#### **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.

#### **Deferred and accrued income**

Deferred income is recognised in respect of amounts invoiced in advance. That part of the invoice value that relates to future periods is debited to turnover or cost of sales in the profit and loss account as appropriate and held within current liabilities in the balance sheet. Accrued income is recognised where there is considered to be a high probability of recovering overhead expenditure incurred. Such amounts are credited to cost of sales in the profit and loss account and held within current assets in the balance sheet.

# Babcock Marine (Clyde) Limited

## Notes to the financial statements for the year ended 31 March 2014

### 1 Cash flow statement

The Company's ultimate parent undertaking, Babcock International Group PLC, produces a consolidated cash flow statement in accordance with Financial Reporting Standard number 1 (Revised 1996) (FRS1) and consequently, the Company has taken advantage of the exemption under FRS1 from producing a cash flow statement.

### 2 Turnover

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

Due to the nature of the Company's operations it is currently reliant upon the Ministry of Defence for the majority of its turnover.

### 3 Operating profit

	2014 £000	2013 £000
Operating profit – is stated after charging:		
Auditors' remuneration		
- audit services	31	27
Operating lease charges		
- other	6	18
Royalty charges	1,891	1,672

The Company's ultimate parent undertaking, Babcock International Group PLC, discloses other (non-audit) services provided to the group, including the company, on a consolidated basis. Consequently, the Company has taken advantage of the exemption not to disclose this information here.

### 4 Interest receivable and similar income

	2014 £000	2013 £000
Group loan interest	65	79

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 5 Staff costs

	2014	2013
	£000	£000
Wages and salaries	53,101	51,089
Social security costs	4,534	4,294
Other pension costs (note 16)	8,859	7,071
<b>Staff costs</b>	<b>66,494</b>	<b>62,454</b>

The average monthly number of persons (including executive directors) employed by the Company during the year was:

By activity	2014 Number	2013 Number
<b>Production</b>	<b>1,507</b>	<b>1,438</b>

The nature of the Partnering Agreement is such that the vast majority of the Company's employees are directly engaged on the contract.

#### 6 Directors' emoluments

	2014	2013
	£000	£000
<b>Aggregate emoluments</b>	<b>154</b>	<b>176</b>

There were pension benefits accruing to P O Merriman (2013: P O Merriman).

All directors, with the exception of P O Merriman, are members of a Group defined benefit pension scheme. The emoluments of F Martinelli are included in the financial statements of Babcock Holdings Ltd. The emoluments of AA Bethel are included in the financial statements of Devonport Royal Dockyard Ltd. The emoluments of I S Urquhart and J W Howie are included in the financial statements of Babcock Marine (Rosyth) Limited. None of their emoluments received were in respect of services provided to the Company.

# Babcock Marine (Clyde) Limited

## Notes to the financial statements for the year ended 31 March 2014 (continued)

### 7 Taxation on profit on ordinary activities

	2014	2013
	£000	£000
<b>The taxation charge comprises:</b>		
Corporation tax on the profit for the year at 23% (2013: 24%)		
Current	1,640	1,634
<b>Current tax charge for the year</b>	<b>1,640</b>	<b>1,634</b>
Deferred tax - current	21	10
- adjustment in respect of prior years	-	(7)
Impact of change in UK tax rate	1	1
<b>Total tax charge for the year</b>	<b>1,662</b>	<b>1,638</b>

The tax assessed for the year is lower (2013: lower) than the standard rate of corporation tax in the UK (23%). The differences are as follows:

	2014	2013
	£000	£000
Profit on ordinary activities before tax	7,205	6,833
Expected tax charge on profit on ordinary activities at 23% (2013: 24%)	1,657	1,640
Effects of:		
Timing differences	(21)	(10)
Expenses not deductible for tax purposes	4	4
<b>Current tax charge for the year</b>	<b>1,640</b>	<b>1,634</b>

The standard rate of Corporation Tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 23%.

A number of changes to the UK Corporation tax system were announced in the March 2013 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.

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **7 Taxation on profit on ordinary activities (continued)**

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 stated at 20% at the balance sheet date.

#### **8 Stock**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Finished goods	<b>191</b>	<b>171</b>

#### **9 Debtors**

	<b>2014</b>	<b>2013</b>
	<b>£000</b>	<b>£000</b>
Trade debtors	<b>582</b>	<b>1,045</b>
Amounts owed by parent undertakings	<b>9,000</b>	<b>27,500</b>
Amounts owed by group undertakings	<b>21,511</b>	<b>14,588</b>
Amounts recoverable on long term contracts	<b>15,680</b>	<b>15,740</b>
Other debtors	<b>1,284</b>	<b>1,830</b>
Deferred tax (note 11)	<b>5</b>	<b>27</b>
Prepayments and accrued income	<b>282</b>	<b>104</b>
	<b>48,344</b>	<b>60,834</b>

The amounts owed by parent undertakings are short term interest free loans that are receivable on demand. The amounts owed by group undertakings include short term loans, receivable on demand, paying interest based on LIBOR plus 100 basis points.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 10 Creditors – amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	3,470	4,568
Amounts owed to group undertakings	5,214	4,616
Other creditors	306	96
Payments in advance	394	204
Taxation and social security	1,319	1,862
UK corporation tax	3,274	1,634
Accruals and deferred income	10,641	13,369
	<b>24,618</b>	<b>26,349</b>

Amounts owed to group undertakings are for balances that are repayable on demand with no interest payable.

#### 11 Deferred taxation

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

	2014 £000	2013 £000
Accelerated capital allowances	4	6
Other short term timing differences	1	21
	<b>5</b>	<b>27</b>

The movement on the deferred tax asset is as follows:

	2014 £000	2013 £000
As at 1 April	27	31
Current year charge	(21)	(10)
Prior year adjustment	-	7
Impact of change in UK tax rate	(1)	(1)
<b>As at 31 March</b>	<b>5</b>	<b>27</b>

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 12 Called up share capital

	2014	2013
	£	£
<b>Allotted and fully paid</b>		
1 ordinary shares of £1 each	1	1
	<b>1</b>	<b>1</b>

#### 13 Profit and loss account

	2014	2013
	£000	£000
At 1 April	47,676	42,481
Profit for the financial year	5,543	5,195
Dividends paid	(18,500)	-
<b>At 31 March</b>	<b>34,719</b>	<b>47,676</b>

#### 14 Reconciliation of movements in shareholders' funds

	2014	2013
	£000	£000
Profit for the financial year	5,543	5,195
Dividends paid	(18,500)	-
Opening shareholders' funds	47,676	42,481
<b>Closing shareholders' funds</b>	<b>34,719</b>	<b>47,676</b>



## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 15 Guarantees and financial commitments

##### 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 £620.8m (2013: £658.6m) provided to certain group companies. In addition, the Company at the year end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2013: £nil).

##### Operating lease commitments

At 31 March the company had annual commitments under non cancellable operating leases expiring as follows:

	2014 £000	2013 £000
	Other	Other
- between two and five years	4	2

#### 16 Pension commitments

The pension cost included as a charge in arriving at the operating profit was as follows:

	2014 £000	2013 £000
Babcock Naval Services Pension Scheme	8,191	6,472
Rosyth Royal Dockyard Scheme	9	12
Babcock International Group Pension Scheme	355	340
BIG Defined Contribution Scheme	304	247
	8,859	7,071

The Company operates a defined benefit pension scheme, the Babcock Naval Services Pension Scheme, whose assets are held in a separately administered fund. As explained in the accounting policies, the Company is accounting for this scheme in line with that required of a defined contribution scheme. The employer contributions are made at a rate consistent with the latest actuarial valuation of the scheme.

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements for the year ended 31 March 2014 (continued)**

#### **16 Pension commitments (continued)**

The Company is a contributing employer to the Rosyth Royal Dockyard Pension Scheme and Babcock International Group Pension Scheme. These schemes are multi-employer schemes, the full details of which are contained in the financial statements of Babcock International Group PLC.

The Rosyth Royal Dockyard Pension Scheme and Babcock International Group Pension Scheme are defined benefit schemes. As explained in the accounting policies, the Company is accounting for these schemes in line with that is required of a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the scheme. Full FRS 17 disclosure of the schemes is given in the financial statements of Rosyth Royal Dockyard Limited and Babcock International Group PLC respectively. Any surplus or deficit in the scheme will affect the contributions made by the Company as required by the scheme's rules.

The Rosyth Royal Dockyard Pension Scheme had a deficit of £151.2m (2013: £150.7m). The Babcock International Group Pension Scheme had a deficit of £48.3m (2013: £13.2m).

#### **17 Related party transactions**

The company has taken advantage of the exemption under paragraph 3 (c) from the provisions of FRS8, "Related Party Disclosures", on the grounds that it is a wholly owned subsidiary of a group headed by Babcock International Group PLC.

#### **18 Ultimate parent undertaking**

The immediate parent undertaking is Babcock Marine and Technology Holdings Limited, a company incorporated in the UK.

The ultimate parent undertaking and controlling party is Babcock International Group PLC, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of the Babcock International Group PLC consolidated financial statements can be obtained from the Company Secretary at Babcock International Group PLC, 33 Wigmore Street, London, W1U 1QX.

#### **19 Share-based payments**

The charge to the income statement 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

## Babcock Marine (Clyde) Limited

### Notes to the financial statements for the year ended 31 March 2014 (continued)

#### 19 Share-based payments (continued)

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 £17,000 (2013: 17,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £13,000 (2013: £13,000).

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

DBMP, PSP's and CSOP<sup>1</sup>

	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
2013 DBMP Matching	894,367	1,155.0	16.0%	4.0	40%	623.7	1,155.0	46%	15/8/13
2013 PSP	1,155,538	1,155.0	16.0%	4.0	40%	634.1	1,155.0	46%	15/8/13
2013 PSP Main	107,581	1,155.0	16.0%	4.0	40%	562.5	1,059.1	46%	15/8/13
2013 CSOP	107,581	1,155.0	16.0%	4.0	40%	95.9	71.6	46%	15/8/13
2012 DBMP Matching	326,744	874.5	18.0%	4.0	40%	623.5	874.5	46%	16/7/12
2012 PSP	32,454	874.5	18.0%	4.0	40%	628.8	874.5	46%	16/7/12
2012 PSP Main	1,389,376	879.5	18.0%	4.0	40%	653.5	879.5	46%	14/6/12
2012 PSP Funding	70,239	879.5	18.0%	4.0	40%	575.2	792.4	46%	14/6/12
2012 CSOP	70,239	879.5	18.0%	4.0	40%	78.3	87.1	46%	14/6/12
2011 PSP Main	1,622,534	701.0	25.9%	4.0	90%	433.0	701.0	46%	14/6/11
2011 PSP Funding	80,703	701.0	25.9%	4.0	90%	339.0	582.0	46%	14/6/11
2011 CSOP	80,703	701.0	25.9%	4.0	90%	92.0	116.0	46%	16/6/11

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three 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 just split evenly between TSR and EPS.

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.

The DBMP, PSP and CSOP will be adjusted for the post year end rights issue.

<sup>1</sup> DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and CSOP = 2009 Company Share Option Plan