
Babcock Flagship Limited

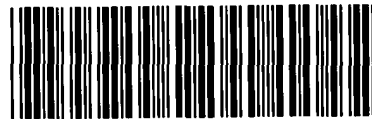
Annual Report

For the year ended 31 March 2018

Company registration number:

03086376

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COMPANIES HOUSE

Babcock Flagship Limited

Directors and Advisors

Directors

N Borrett
D Jones
K Stewart
I Urquhart

Company Secretary

N Borrett

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

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

Babcock Flagship Limited

Strategic report for the year ended 31 March 2018

The directors present their strategic report on the Company for the year ended 31 March 2018.

Principal activities

The principal activities of the Company are the provision of training and support services in the UK defence sector and also to international customers.

Business review

	2018 £000	2017 £000
Revenue	47,578	48,854
Profit for the financial year	8,329	5,545

The Company has continued to provide training & support services to the Royal Navy and other parties in the year through a number of contracts.

A key strand of the Company's ongoing support to the Royal Navy is the transformation of its engineering training. The transformation project proved challenging and completed in the year. It has allowed the Company to introduce a series of innovative approaches to training. A further extension to April 2020 for the contract was secured in the year.

Another significant contract, The Hunter Training Programme 2 for the Royal Saudi Naval Forces, contracted through BAE systems, increased in activity compared to the previous year.

The increase in profit, year on year, resulted largely from a credit to the income statement of £3.9m as a result of a provision for an onerous customer contract that has been reassessed as obligations have been satisfied.

The directors consider the financial position of the company to be satisfactory.

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 Babcock International Group (the "Group") level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

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

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

Babcock Flagship Limited**Strategic report for the year ended 31 March 2018** *(continued)***Future developments**

We remain confident that the Company will continue to benefit from the strength of its relationships with its existing customers.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

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 the Marine sector, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 30 to 37 of the Group's report, which does not form part of this report.

Financial risk management

Information on the financial risk management of the Company can be found in the Directors' report.

On behalf of the board



Karen Stewart

Director

27 June 2018

Directors' report

The directors present their report and the audited financial statements of the Company, for the year ended 31 March 2018.

Results and dividends

The Company's results for the year are set out in the income statement on page 12 showing a profit for the financial year after tax of £8,329,000 (2017: £5,545,000). At 31 March 2018 the Company had net assets of £48,778,000 (2017: £59,741,000).

An interim dividend of £20,000,000 (2017: £nil) representing £40 per share was declared and paid in the year, and the directors do not recommend the payment of a final dividend (2017: £nil).

Future developments

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

Financial risk management

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

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

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 26 to 29 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Price risk

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

Credit risk

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

Liquidity risk

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

Directors' report (continued)

Financial risk management (continued)

Interest rate cash flow risk

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

Directors

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

N Borrett	
M Dixon	Appointed 8 February 2018 and resigned 30 April 2018
R Hardy	Resigned 1 April 2017
K Hayzen-Smith	Resigned 1 April 2017
D Jones	Appointed 1 April 2017
P Kingshott	Resigned 1 April 2017
K Stewart	Appointed 30 April 2018
I Urquhart	
J Wadham	Resigned 31 December 2017

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

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

Directors' report (continued)

Environment

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

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

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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, comprising FRS 101 "Reduced Disclosure Framework", 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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' protection

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

Babcock Flagship Limited

Directors' report *(continued)*

Disclosure of information to auditors

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

On behalf of the board



Karen Stewart
Director
27 June 2018

Independent auditors' report to the members of Babcock Flagship Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Flagship Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2018; the Income Statement and Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered

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

material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Michael Coffin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
27 June 2018

Babcock Flagship Limited**Income statement**
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue	4	47,578	48,854
Cost of sales - non exceptional items		(38,720)	(39,569)
Cost of sales - exceptional items	6	3,917	-
Cost of sales – total		(34,803)	(39,569)
Gross profit		12,775	9,285
Administrative expenses		(2,840)	(3,310)
Operating profit	6	9,935	5,975
Finance income	5	1,111	1,239
Finance costs	5	(4)	(8)
Other finance income / (costs)	19	120	(66)
Profit before taxation		11,162	7,140
Income tax expense	9	(2,833)	(1,595)
Profit for the financial year		8,329	5,545

All of the above results derive from continuing operations

Statement of comprehensive income
for the year ended 31 March 2018

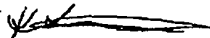
	Note	2018 £000	2017 £000
Profit for the financial year		8,329	5,545
Other comprehensive income:			
<i>Items that will not subsequently be reclassified to the income statement</i>			
Gain on remeasurement of net defined benefit obligation	19	833	7,101
Tax on defined benefit obligation	9	(125)	(1,247)
Other comprehensive income for the year		708	5,854
Total comprehensive income for the year		9,037	11,399

Babcock Flagship Limited**Balance Sheet**
as at 31 March 2018

	Note	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	10	-	-
Investments	11	50	50
Gross pension assets	19	6,055	4,380
		<u>6,105</u>	<u>4,430</u>
Current assets			
Trade and other receivables - amounts falling due within one year	12	69,832	89,125
Trade and other receivables - amounts falling due after more than one year	12	-	830
Cash and cash equivalents		11,571	4,829
		<u>81,403</u>	<u>94,784</u>
Current liabilities			
Creditors - amounts falling due within one year	13	(35,754)	(30,582)
		<u>45,649</u>	<u>64,202</u>
Net current assets			
		<u>51,754</u>	<u>68,632</u>
Total assets less current liabilities			
		<u>51,754</u>	<u>68,632</u>
Provisions for liabilities	14	(2,976)	(8,891)
		<u>48,778</u>	<u>59,741</u>
Net assets			
		<u>48,778</u>	<u>59,741</u>
Equity			
Called up share capital	16	500	500
Retained earnings		48,278	59,241
		<u>48,778</u>	<u>59,741</u>
Total shareholders' funds			
		<u>48,778</u>	<u>59,741</u>

The notes on pages 15 to 34 are an integral part of these financial statements.

The financial statements on pages 12 to 34 were approved by the board of directors on 27th June 2018 and signed on its behalf by:


Karen Stewart
Director

Babcock Flagship Limited**Statement of changes in equity**
for the year ended 31 March 2018

	Called up share capital	Retained earnings	Total
	£000	£000	£000
Balance as at 1 April 2016	500	47,842	48,342
Profit for the year	-	5,545	5,545
Other comprehensive income	-	5,854	5,854
Total comprehensive income for the year	-	11,399	11,399
Balance as at 31 March 2017	500	59,241	59,741
Profit for the year	-	8,329	8,329
Other comprehensive income	-	708	708
Total comprehensive income for the year	-	9,037	9,037
Dividends paid	-	(20,000)	(20,000)
Balance as at 31 March 2018	500	48,278	48,778

Babcock Flagship Limited

Notes to the financial statements *(forming part of the financial statements)*

1. General information

Babcock Flagship Limited is a private company limited by shares which is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has applied 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, in accordance with the Companies Act 2006, as applicable to companies using FRS 101. The financial statements are prepared in pounds 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 judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment 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 Defence & Security Holdings LLP 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 requirements 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 and the shareholders of the Company have been notified accordingly:

- a) 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)

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

- b) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- c) IAS 7, 'Statement of cash flows'
- d) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- e) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- f) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- g) IFRS 7 financial instruments: disclosures.
- h) 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).
- i) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment'.

Going concern

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

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 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.

b) 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

Babcock Flagship Limited**Notes to the financial statements (continued)****Revenue (continued)****2 Summary of significant accounting policies (continued)**

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 over/under 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.

Trade and other receivables

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

A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Trade and other payables

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

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Borrowings

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

Interest income

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Interest payable

All borrowing costs are recognised in the income statement in the period in which they are incurred.

Contract accounting balances

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

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

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

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

Property plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each reporting date) at the following annual rates:

Vehicles, plant and machinery	6.6% to 33.3%
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Where property, plant and equipment are purchased for specific projects and the remaining project life is less than the above periods, the asset is written off over the remaining project life.

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

Investments

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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 reporting 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 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 substantively enacted by the reporting 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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions costs and other post-retirement benefits

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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 reporting 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.

Provisions

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

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

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

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

3. Critical accounting estimates and judgements

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

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

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 19 for the disclosures of the defined benefit pension scheme.

Babcock Flagship Limited**Notes to the financial statements (continued)****Critical accounting judgements and estimates (continued)****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.

Contract provisions

The Company recognises provisions based upon the probable outflow of resources that will be required to settle the obligation. Provisions are calculated using the best reliable estimates available to management at the signing date. Reorganisation provisions comprise employee termination payments.

Deferred tax

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

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

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

4. Revenue

Revenue is wholly attributable to the principal activity of the Company and is of United Kingdom origin. Its destination is as follows:

	2018 £000	2017 £000
Destination		
United Kingdom	46,368	47,946
Canada	1,210	908
	<u>47,578</u>	<u>48,854</u>

Babcock Flagship Limited**Notes to the financial statements (continued)****5. Finance income and costs**

	2018 £000	2017 £000
Finance income		
Bank interest	-	2
Loan interest receivable from group undertakings	1,111	1,237
	<u>1,111</u>	<u>1,239</u>
Finance costs		
Bank interest on overdrafts	(4)	(8)
	<u>(4)</u>	<u>(8)</u>

6. Operating profit

Operating profit is stated after (crediting)/charging:

	2018 £000	2017 £000
Operating lease charges	531	263
Impairment of trade receivables	-	3
Foreign exchange (gains)/losses	(25)	6
Exceptional credit in cost of sales (note 14)	(3,917)	-
Services provided by the company's auditors		
- fees payable for the audit	60	55

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 financial statements are required to comply with the statutory disclosure requirements.

Fees payable for the audits of Flagship Fire Fighting Training Limited £7,000, (2017: £7,000) and Babcock Fire Services Limited £7,000 (2017: £7,000) have been borne by the Company.

Babcock Flagship Limited**Notes to the financial statements (continued)****7. Staff costs**

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

	2018 Number	2017 Number
By activity		
Operations	854	809
Administration	18	9
	<u>872</u>	<u>818</u>

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	25,971	24,227
Social security costs	2,941	2,462
Other pension costs (note 19)	2,763	2,150
	<u>31,675</u>	<u>28,839</u>

Included in other pension costs are £1,256,000 (2017: £1,098,000) in respect of the defined benefit scheme and £1,507,000 (2017: £1,052,000) 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.

8. Directors' remuneration

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

	2018 £000	2017 £000
The remuneration of the directors which were paid by the Company was as follows:		
Emoluments (including benefits-in-kind)	143	125
Defined contribution pension scheme	8	7
	<u>151</u>	<u>132</u>

During the year no (2017: no) directors remunerated by Babcock Flagship Limited exercised share options under long term incentive plans and no (2017: no) directors were entitled to receive share options under long term incentive plans.

Notes to the financial statements (continued)**8. Directors' remuneration (continued)**

Retirement benefits were accruing to one director (2017: none) under SIPS money purchase scheme.

Except for one director (2017: one), 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.

9. Income tax expense

Tax expense included in income statement	2018	2017
	£000	£000
Current tax		
UK Corporation tax on profits for the year	1,577	1,860
Current tax charge for the year	1,577	1,860
Deferred tax		
Origination and reversal of timing differences	546	(428)
Adjustments in respect of prior years	750	40
Impact of change in UK tax rate	(40)	123
Total deferred tax (credit) / charge (note 15)	1,256	(265)
Tax on profit	2,833	1,595
Tax expense included in other comprehensive income	2018	2018
	£000	£000
Deferred tax:		
Tax impact of actuarial gains on pension liability	158	1,420
Impact of change in UK tax rate	(33)	(173)
Tax expense included in other comprehensive income	125	1,247

Babcock Flagship Limited**Notes to the financial statements (continued)****9. Income tax expense (continued)**

The tax assessed for the year is higher (2017: *higher*) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

	2018 £000	2017 £000
Profit before taxation	11,162	7,140
Profit before taxation multiplied by the standard UK corporation tax rate of 19% (2017: 20%)	2,121	1,428
Effects of:		
Expenses not deductible for tax purposes	2	4
Impact of change in UK tax rate	(40)	123
Adjustments in respect of prior years	750	40
Tax charge for the financial year	2,833	1,595

In the UK 2017 budget it was announced that the UK corporation tax rate will reduce to 17% from April 2020. As a result of this change, deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal.

10. Property Plant and Equipment

	Vehicles, plant and machinery £000
Cost	
At 31 March 2017	2,226
Disposals	(2,226)
At 31 March 2018	-
Accumulated depreciation	
At 31 March 2017	2,226
Disposals	(2,226)
At 31 March 2018	-
Net book value	
At 31 March 2018	-
At 31 March 2017	-

Notes to the financial statements (continued)**11. Investments**

The Company has a 100% owned subsidiary undertaking, Flagship Fire Fighting Training Limited, a company registered in England and Wales. The address of its registered office is 33 Wigmore Street, London W1U 1QX. Its activity is the supply of firefighting training under a PFI contract.

The directors believe that the carrying value of the investments is supported by their underlying net assets or value in use.

12. Trade and other receivables

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts recoverable on contracts	1,877	5,250
Trade receivables	3,655	1,082
Amounts owed by group undertakings	63,827	82,624
Other receivables	34	66
Prepayments and accrued income	439	103
	69,832	89,125
	2018 £000	2017 £000
Amounts due after more than one year:		
Recoverable deferred taxation (note 15)	-	830
	-	830

There are three major loans (2017: four) to group companies:

- A loan of £7,250,000 (2017: £7,250,000) is repayable on demand, the interest rate is the base rate minus 0.125%; the base rate is set at the prevailing 6 month LIBOR rate on each interest payment.
- A loan of £50,000,000 (2017: £50,000,000) is repayable on demand, the interest rate is the base rate minus the relevant margin of 0.125%. The base rate commenced at 0.7425% and thereafter is set at the prevailing 6 month LIBOR rate on each interest payment date.
- A loan totalling £4,838,000 (2017: £4,838,000) is repayable on demand, with no interest charge.
- A loan of £nil (2017 £20,000,000) was repayable on demand. The interest rate was the 6 month LIBOR plus 4%.

All financial assets of the Company are carried at amortised cost.

The receivables are stated after provisions for impairment of £nil (2017: £1,500).

Notes to the financial statements *(continued)***13. Creditors: amounts falling due within one year**

	2018	2017
	£000	£000
Bank overdraft	-	82
Trade payables	1,144	1,826
Payments received on account of long term contracts	8,344	5,598
Amounts owed to group undertakings	14,117	13,978
UK corporation tax payable	6,228	4,650
Other taxation and social security	1,527	1,534
Accruals and deferred income	4,395	2,914
	35,754	30,582

All financial liabilities of the Company are carried at amortised cost.

14. Provisions for liabilities

	2018	2017
	£000	£000
Contract provisions	2,425	8,891
Deferred Taxation (see note 15)	551	-
	2,976	8,891

	Contract provisions £000
At 1 April 2017	8,891
Released from the income statement	(3,917)
Utilised during the year	(2,549)
At 31 March 2018	2,425

Contract provisions

Contract provisions relate to a review of the major programmes in Babcock Flagship Limited following the acquisition by Babcock International Group PLC and relate to expected contract losses, accrued liabilities currently not provided and excess construction costs. These are based on the assessment of future costs and are assessed with reference to past experience. Provisions are expected to be utilised over future years up to 2037, including an element which is expected to be utilised within one to two years.

During the year a net £3.9m was credited to the income statement as obligations have been satisfied.

Notes to the financial statements (continued)**15. Deferred taxation**

The major components of the deferred tax liability (asset) recorded are as follows:

Deferred tax (assets)/liabilities	Accelerated capital allowances £000	Defined Benefit Pension £000	Other £000	Total £000
At 1 April 2016:	(69)	(380)	(1,363)	(1,812)
- Credited to the income statement	7	(122)	(150)	(265)
- Charged to other comprehensive income	-	1,247	-	1,247
At 31 March 2017	(62)	745	(1,513)	(830)
- Charged to the income statement	10	160	1,086	1,256
- Charged to other comprehensive income	-	125	-	125
At 31 March 2018	(52)	1,030	(427)	551

Other deferred tax relates to contract provisions held at the balance sheet date.

16. Called up share capital

	Number	£000
Allotted, called up and fully paid		
At 31 March 2018 & 31 March 2017		
"A" ordinary shares	250,000	250
"B" ordinary shares	250,000	250
	<u>500,000</u>	<u>500</u>

All ordinary shares have the same rights.

Babcock Flagship Limited**Notes to the financial statements (continued)****17. Dividends**

	2018 £000	2017 £000
Equity – ordinary		
Interim paid (£40 per £1 share)	20,000	-

There are no plans to recommend a final dividend (2017: £nil).

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 (2017: £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 (2017: £nil).

b) Operating lease commitments

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

	Land & buildings 2018 £000	Other 2018 £000	Land & buildings 2017 £000	Other 2017 £000
- within one year	230	101	300	64
- between one and five years	347	157	509	125
	577	258	809	189

The entity leases various buildings under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases vehicles under non-cancellable operating leases.

19. 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 a defined benefit scheme (the "Babcock International Group Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which have been recognised in these financial statements are detailed in this note.

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.

Notes to the financial statements (continued)**19 Pension commitments (continued)**

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk 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.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's 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 scheme has an independent trustee and member nominated trustees. The scheme is 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 2018 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 2016. The major assumptions used for the IAS 19 valuation were:

	2018 %	2017 %
Major assumptions		
Rate of increase in salaries	2.2	2.3
Rate of increase in pension payment	2.9	3.0
Discount rate	2.6	2.6
Inflation	2.0	2.1

Babcock Flagship Limited**Notes to the financial statements (continued)****19 Pension commitments (continued)**

The expected total employer contributions to be made by participating employers to the scheme in 2018/19 are £22.9m. The future service rate is 31.1% until 30 September 2018 and then 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £22.9m is £8.5m 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:

	2018 Years	2017 Years
Life expectancy from age 65 (male age 65)	22.2	22.6
Life expectancy from age 65 (male age 45)	23.2	23.7

The changes to the Babcock International Group Plc balance sheet at March 2018 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 2018 £000	Income statement 2019 £000
Initial assumptions	1,380,628	10,419
Discount rate assumptions increased by 0.5%	(101,600)	(4,500)
Discount rate assumptions decreased by 0.5%	101,600	3,500
Inflation rate assumptions increased by 0.5%	61,000	2,400
Inflation rate assumptions decreased by 0.5%	(56,600)	(2,100)
Total life expectancy increased by half a year	28,100	900
Total life expectancy decreased by half a year	(28,100)	(900)
Salary increase assumptions increased by 0.5%	9,700	600
Salary increase assumptions decreased by 0.5%	(9,600)	(600)

The weighted average duration of cashflows (years) was 15.

Notes to the financial statements (continued)

19 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 2018 were:

Fair value of plan of assets	2018 £'000	2017 £'000
Equities	310,191	321,942
Property	120,844	96,346
Absolute return and multi strategy funds	4,833	4,768
	485,697	445,079
Bonds		
Matching assets	569,413	596,325
Active position on longevity swaps	(50,150)	(48,451)
Total assets	1,440,828	1,416,009
Present market value of liabilities – funded	(1,380,628)	(1,371,686)
Gross pension surplus	60,200	44,323

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 2018, 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	2018 £000	2017 £000
Current service cost	10,253	8,910
Incurred expenses	2,232	2,203
Total included within operating profit	12,485	11,113
Net interest (income) / cost	(1,194)	663
Total charged to the income statement	11,291	11,776

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 £959,000 for service cost (2017: £801,000), £297,000 for incurred expenses (2017: £297,000), and net interest credit of £120,000 (2017: cost of £66,000).

Babcock Flagship Limited**Notes to the financial statements (continued)****19 Pension commitments (continued)**

	2018 £000	2017 £000
Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")		
Actuarial (loss)/gain recognised in the SOCl	(4,169)	57,922
Experience gains/(losses)	13,687	(205)
Other (losses) / gains	(439)	4,015
	<u>9,079</u>	<u>61,732</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 £833,000 (2017: £7,101,000).

The equity investments and bonds are valued at bid price.

	2018 £000	2017 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	1,464,460	1,232,177
Interest cost	37,512	42,556
Employee contributions	404	304
Employer contributions	18,090	18,751
Benefits paid	(76,476)	(70,210)
Actuarial gain	46,988	240,882
At 31 March	<u>1,490,978</u>	<u>1,464,460</u>

	2018 £000	2017 £000
Reconciliation of present value of scheme liabilities		
At 1 April	1,371,687	1,205,869
Service cost	10,253	8,910
Incurred expenses	2,232	2,203
Interest on liabilities	35,058	41,445
Employee contributions	404	304
Actuarial loss / (gain) – demographics	11,172	(29,948)
Actuarial (gain) / loss – financial	(7,003)	212,909
Experience losses	33,301	205
Benefits paid	(76,476)	(70,210)
At 31 March	<u>1,380,628</u>	<u>1,371,687</u>

Babcock Flagship Limited**Notes to the financial statements (continued)****19 Pension commitments (continued)**

The surplus 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 £6,055,000 (2017: £4,380,000).

The Company also operated several defined contribution scheme. The pension charge for the year includes contributions payable by the Company to these funds amounting to £1,507,000 (2017: £1,052,000). At 31 March 2018, no contributions were payable to the funds (2017: £nil).

20. Subsidiary undertakings

The subsidiary undertaking of the Company at 31 March 2018 is shown below. The Company and its subsidiary are incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares. The registered office for this subsidiary is 33 Wigmore Street, London W1U 1QX.

Company Name	Country	Interest	Direct %	Ultimate%
Flagship Fire Fighting Training Limited	United Kingdom	100 Ordinary shares	100.0%	100.0%

21. Ultimate parent undertaking

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The smallest and largest 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