

Babcock Networks Limited

ANNUAL REPORT

FOR THE YEAR ENDED 31 MARCH 2016

**Company Registered Number:
00245626**

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COMPANIES HOUSE

Babcock Networks Limited

Directors and Advisors

Current directors

L H Brown
J R Davies
P Esbach
R Forbes
G D Leeming
F Martinelli
P L Rogers
I S Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

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

The directors present their strategic report of the Company, for the year ended 31 March 2016.

Principal activities

The company is an industry leader in the power and telecommunications sectors. It provides services in industries which include mobile telecoms infrastructure, broadcast, and power transmission.

Key clients include National Grid, Scottish and Southern Energy, Scottish Power, Arqiva, Nokia Siemens Networks and Ericsson.

Review of the business

	2016 £'000	2015 £'000
Revenue	69,061	97,130
Profit for the financial year	2,423	3,613

The Power business experienced a short term reduction in demand at the start of the year resulting in a downsizing of the overall business. The business has been stabilised and has performed well securing additional work during the year.

The Electricity Alliance West, the Alliance with National Grid, Amec and Mott MacDonald covering Wales, Western and Southern England, had lower levels of activity than last year. There has been a significant reduction in demand for new build schemes from National Grid and this trend will continue through the final year of the alliance.

The lower demand from National Grid through the Energy Alliance West and Scottish Power has been partially offset by demand from National Grid.

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 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 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

Overall the Power business is experiencing a short term reduction in demand and a corresponding increase in market competition. There remain significant medium and long term opportunities in the market place and the business is positioned to take advantage of these. Our work within the Electricity Alliance West has two more years to run and this will continue to form a core part of workload through that period. Outside the alliance we are delivering a number of other secured contracts with our key clients in the Power and Communications businesses.

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 Support Services Division, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 46 to 49 of the annual report of Babcock International Group Plc, which does not form part of this report.

On behalf of the Board 29 June 2016



L H Brown
Director

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

Dividends

The directors have not declared a dividend for the year ended 31 March 2016 (2015 - £nil).

Future developments

There remain significant medium and long term opportunities in the market place and the business is positioned to take advantage of these both in the Power side and Communications side of the business. Our work within the Electricity Alliance West has one years to run. Outside the alliance we are delivering a number of other secured contracts with our key clients in the Power and Communications businesses.

Financial risk management

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

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

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.

Interest rate cash flow risk

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors

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

L H Brown

J R Davies – appointed 1 December 2015

P Esbach – appointed 27 July 2015

R Forbes

G D Leeming

F Martinelli

K R Thomas – resigned 2 November 2015

I S Urquhart

R F Whiley – resigned 27 July 2015

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.

Environment

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

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

Statement of directors' responsibilities

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

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

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

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

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

Qualifying third party indemnity provisions

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

Disclosure of information to auditors

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

On behalf of the Board 29 June 2016



L H Brown
Director

Independent auditors' report to the members of Babcock Networks Limited

Report on the financial statements

Our opinion

In our opinion, Babcock Networks Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

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

- the Balance sheet as at 31 March 2016;
- the Income statement and Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

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

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 set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

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

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

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

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

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



Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
29 June 2016

Babcock Networks Limited

Income statement

for the year ended 31 March 2016

	Note	2016 £'000	2015 £'000
Revenue	4	69,061	97,130
Cost of sales		(59,407)	(85,035)
Gross profit		9,654	12,095
Administrative expenses		(6,498)	(6,922)
Operating profit		3,156	5,173
Finance costs	5	(165)	(163)
Other finance costs - pensions	20	17	(19)
Profit on ordinary activities before taxation	6	3,008	4,991
Income tax expense	9	(585)	(1,369)
Profit for the financial year		2,423	3,613

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2016

		2016 £'000	2015 £'000
Profit for the financial year		2,423	3,613
Other comprehensive income:			
<i>Items that will not be subsequently reclassified to income statement:</i>			
Actuarial (loss)/ gain recognised on the pension scheme	20	(842)	533
Movement in deferred tax relating to pension liability	20	163	(103)
Total comprehensive income for the year		1,744	4,043

Balance Sheet
as at 31 March 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Intangible assets	10	175	231
Property, Plant and Equipment	11	2,357	3,347
Investments	12	3	3
		<u>2,535</u>	<u>3,581</u>
Current assets			
Stocks	13	1,840	1,792
Trade and other receivables	14	36,002	27,665
Cash and cash equivalents		749	6,180
		<u>38,591</u>	<u>35,637</u>
Trade and other payables – amounts falling due within one year	15	<u>(29,336)</u>	<u>(29,423)</u>
Net Current assets		<u>9,255</u>	<u>6,214</u>
Total assets less current liabilities		11,790	9,795
Trade and other payables – amounts falling due after more than one year	15	(393)	(480)
Provisions for liabilities	16	(1,895)	(2,177)
Gross pension (liability)/ asset	20	<u>(259)</u>	<u>361</u>
Net assets		<u><u>9,243</u></u>	<u><u>7,499</u></u>
Equity			
Called-up share capital	18	2,519	2,519
Share premium account		1,269	1,269
Other reserve		1,342	1,342
Profit and loss account		<u>4,113</u>	<u>2,369</u>
Total shareholders' funds		<u><u>9,243</u></u>	<u><u>7,499</u></u>

The notes on pages 13 to 34 are an integral part of these financial statements.

The financial statements on pages 10 - 34 were approved by the board of directors on 29 June 2016 and signed on its behalf by:



L H Brown
Director

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

	Called up share capital £'000	Share premium account £'000	Other Reserve £'000	Profit and loss account £'000	Total shareholders funds £'000
At 1 April 2015	2,519	1,269	1,342	2,369	7,499
Profit for the financial year	-	-	-	2,423	2,423
Actuarial loss on pension scheme	-	-	-	(842)	(842)
Movement in deferred tax relating to pension scheme	-	-	-	163	163
At 31 March 2016	2,519	1,269	1,342	4,113	9,243

	Called up share capital £'000	Share premium account £'000	Other Reserve £'000	Profit and loss account £'000	Total shareholders funds £'000
At 1 April 2014	2,519	1,269	1,342	(1,674)	3,456
Profit for the financial year	-	-	-	3,613	3,613
Actuarial gain on pension scheme	-	-	-	533	533
Movement in deferred tax relating to pension scheme	-	-	-	(103)	(103)
At 31 March 2015	2,519	1,269	1,342	2,369	7,499

1 General information

Babcock Networks Limited is a private company 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 principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 23.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measure at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

The Company is a wholly owned subsidiary of Babcock Support Services (Investments) Limited and of its ultimate parent, Babcock International Group Plc. It is included in the consolidated financial statements of Babcock International Group Plc which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

2 Summary of significant accounting policies *(continued)*

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

Revenue

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

(a) Sale of goods

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

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

(c) Long-term service contracts

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

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

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

Notes to the Financial Statements (continued)

2 Summary of significant accounting policies (continued)

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

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.

Intangible assets

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

Computer software

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment are 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 PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

Notes to the Financial Statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade receivables

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

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post-retirement benefits

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

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

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

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

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

Notes to the Financial Statements (continued)

2 Summary of significant accounting policies (continued)

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

Foreign currencies

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

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

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

A dilapidations provision is recognised for the costs of restoring properties to their original state at the completion of the lease term.

3 Critical accounting estimates and judgements

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

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

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds.

Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures of the defined benefit pension scheme.

Contract accounting

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

Notes to the Financial Statements (continued)

4 Revenue

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

	2016 £'000	2015 £'000
Rendering of services	69,061	97,130
	69,061	97,130

All the revenue in the year ending 31 March 2016 originated in the United Kingdom.

5 Finance costs

Finance expenses:

	2016 £'000	2015 £'000
Bank interest	165	163
	165	163

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2016 £'000	2015 £'000
Amortisation of intangible assets	56	122
Depreciation on tangible assets	989	1,152
Audit fees payable to the Company's auditor	14	20
Operating lease rentals	883	887
Loss on disposal of fixed assets	26	40

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.

Notes to the Financial Statements (continued)

7 Staff costs

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

	2016 Number	2015 Number
Operations	577	698
Management and administration	72	79
	649	777

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	26,062	31,657
Social security costs	2,765	3,482
Other pension costs	1,124	1,323
	29,951	36,462

Included in other pension costs are £303,000 (2015: £277,000) in respect of the defined benefit schemes and £821,000 (2015: £1,046,000) 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

All directors 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.

Notes to the Financial Statements (continued)

9 Income tax

	2016 £'000	2015 £'000
Tax expense included in income statement		
Current tax		
UK Corporation tax on profits of the period	587	1,059
Current tax charge for the year	587	1,059
Deferred tax:		
Current tax charge for the year	33	31
Adjustment in respect of prior years:		
Other	(83)	286
Impact of change in UK tax rate	48	(7)
Tax charge	585	1,369
Tax expense included in other comprehensive income		
Deferred tax:		
- Origination and reversal of temporary differences	(168)	(112)
- Impact of change in tax rates	5	9
	(163)	(103)

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

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	3,008	4,991
Tax on profit on ordinary activities at Standard UK Corporation tax rate of 20% (2015: 21%)	602	1,048
Effects of:		
Timing differences	(36)	279
Expenses not deductible for tax purposes	19	42
	585	1,369

Notes to the Financial Statements *(continued)*

9 Income tax (continued)

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

10 Intangible fixed assets

	Software £'000
Cost	
At 1 April 2015 and 31 March 2016	<u>2,348</u>
Depreciation	
At 1 April 2015	2,117
Charge for the year	<u>56</u>
At 31 March 2016	<u>2,173</u>
Net book value	
At 31 March 2016	<u>175</u>
At 31 March 2015	<u>231</u>

Notes to the Financial Statements *(continued)*

11 Property, Plant and Equipment

	Leasehold Property	Plant and machinery	Total
	£'000	£'000	£'000
Cost			
At 1 April 2015	626	13,237	13,863
Additions	-	25	25
Disposals	-	(142)	(142)
At 31 March 2016	626	13,120	13,746
Depreciation			
At 1 April 2015	43	10,473	10,516
Charge for the year	65	924	989
Disposals	-	(116)	(116)
At 31 March 2016	108	11,281	11,389
Net book value			
At 31 March 2016	518	1,839	2,357
At 31 March 2015	583	2,764	3,347

12 Investments

	Total £'000
Cost	
At 1 April 2015 and 31 March 2016	11,211
Provision for impairment	
At 1 April 2015 and 31 March 2016	11,208
Net book value	
At 1 April 2015 and 31 March 2016	3

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

Notes to the Financial Statements (continued)

12 Investments (continued)

The subsidiary of the Company at 31 March 2016 is shown below:

Name	Class of share	Number held at 31 March 2016	Percentage	Country of domicile
Eve Developments Limited	Ordinary	2	100%	UK

On 15 September 2010, proprietary know-how, not capitalised in the financial statements of the company in accordance with FRS 10, was transferred to Babcock LLP in exchange for an interest in that partnership. This was in order to facilitate the integration of the Babcock and VT groups. The partnership interest has been recognised at a cost of £nil given that the know how transferred was not recognised in the financial statements of the company prior to the transfer. A royalty is payable at the rate of 1.5% of turnover. The charge for the year is £900k (2015: £1,335k).

13 Stocks

	2016 £'000	2015 £'000
Finished goods and goods for resale	1,840	1,792

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

14 Trade and other receivables

	2016 £'000	2015 £'000
Amounts falling due within one year:		
Trade receivables	3,136	4,121
Amounts recoverable on contracts	1,888	8,483
Amounts owed by group undertakings	29,337	12,936
Deferred tax (note 17)	476	311
Prepayments, other debtors and accrued income	703	1,707
	35,540	27,558
Amounts falling due after more than one year:		
Trade receivables	462	107
Total	36,002	27,665

Notes to the Financial Statements *(continued)*

14 Trade and other receivables *(continued)*

The amounts due from group undertakings are unsecured and repayable on demand.

Six loans (2015: four) for £28,365,000 (2015: £11,865,000) are repayable on demand, with no interest charge.

15 Trade and other payables

	2016 £'000	2015 £'000
Amounts falling due within one year		
Trade creditors	10,726	9,849
Amounts owed to group undertakings	11,944	11,412
Payments received on account of long term contracts	-	811
UK corporation tax payable	4,379	3,792
Other taxes and social security	2,106	1,786
Accruals and deferred income	181	1,773
	<u>29,336</u>	<u>29,423</u>
Amounts due after more than one year		
	2016 £'000	2015 £'000
Other creditors and accruals	<u>393</u>	<u>480</u>
	<u>393</u>	<u>480</u>

The amounts due to group undertakings are unsecured and repayable on demand.

There are five major loans (2015: five) from group companies:

Four loans (2015: four) totalling £4,331,000 (2015: £4,331,000) are repayable on demand, with no interest charge.

A loan of £3,495,000 (2015: £3,495,000) is repayable on demand, the interest rate is 6 month LIBOR plus 1%.

The other creditors and accruals balance relates to the following;

Pension liability owed to Babcock International Group Pension Scheme £393,000 (2014: £768,000).

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 19(a)).

Notes to the Financial Statements *(continued)*

16 Provisions for liabilities and charges

	Dilapidations Provisions	Brand Name Provision	Total
	£'000	£'000	£'000
At 1 April 2015	817	1,360	2,177
Charged to the profit and loss account	95	-	95
Utilised during the year	(227)	(150)	(377)
At 31 March 2016	685	1,210	1,895

The dilapidation provision relates to property leases.

The brand name provision relates to the licencing of the Eve Trackway name to Babcock Networks Limited.

17 Deferred taxation

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

	Accelerated capital allowances	Other	Total
	£'000	£'000	£'000
At 1 April 2014:	631	102	733
- Credited to the income statement	(248)	(71)	(319)
- Credited to other comprehensive income	-	(103)	(103)
At 31 March 2015:	383	(72)	311
- Charged / (credited) to the income statement	46	(44)	2
- Charged to other comprehensive income	-	163	163
At 31 March 2016:	429	47	476

Notes to the Financial Statements (continued)

18 Share capital

	2016 £000	2015 £000
Allotted and fully paid		
2,519,000 ordinary shares of £1 each (2015: 2,519,000)	<u>2,519</u>	<u>2,519</u>

19 Financial commitments

a) Contingent liabilities

At the year end the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain group companies. In addition, the Company at the year end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15,000,000).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

b) Operating lease commitments	2016 Land and buildings £'000	2016 Other £'000	2015 Land and buildings £'000	2015 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	766	-	805	-
- between two and five years	1,425	-	1,496	-
- after five years	-	-	183	-
	<u>2,191</u>	<u>-</u>	<u>2,484</u>	<u>-</u>

Notes to the Financial Statements *(continued)*

20 Pension commitments

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

The pension cost included as a charge in arriving at the profit for the financial year was as follows:

	2016 £'000	2015 £'000
Babcock International Defined Contribution Scheme	821	1,046
Babcock International Defined Benefit Scheme	303	277
	<u>1,124</u>	<u>1,323</u>

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 has 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.

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.

Notes to the Financial Statements *(continued)*

20 Pension commitments *(continued)*

BIG Pension Scheme

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

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

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

The mortality assumptions used were:

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

Notes to the Financial Statements (continued)

20 Pension commitments (continued)

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

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

The weighted average duration of cash flows (years) was 16.

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

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

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

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

Notes to the Financial Statements (continued)

20 Pension commitments (continued)

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

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £155k for service cost (2015: £121k), £30k for incurred expenses (2015: £20k), and net interest credit of £17k (2015: charge of £19k).

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

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £843k (2015: gain £532k).

Notes to the Financial Statements (continued)

20 Pension commitments (continued)

The equity investments and bonds are valued at bid price.

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

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

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £259k (2015: surplus £361k).

Notes to the Financial Statements *(continued)*

21 Ultimate parent undertaking

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

The company's immediate parent company is Babcock Support Services (Investments) Limited, a company registered in England and Wales.

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

22 Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31st March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31 March 2014 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 101.

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

Profit for the financial year		2015
		£'000
UK GAAP - As previously reported		3,342
Defined benefit pension scheme	<u>342</u>	
Total adjustment to profit before tax for the financial year	<u>342</u>	
Deferred tax impact of adjustments:		
Defined benefit pension scheme	<u>(71)</u>	
Total adjustment to tax expense	<u>(71)</u>	
Total adjustment to profit for the financial year		271
FRS 101		<u>3,613</u>

Notes to the Financial Statements *(continued)*

22 Transition to FRS 101 *(continued)*

Other comprehensive income	2015 £'000
UK GAAP – As previously reported	3,613
Defined benefit pension scheme	533
Deferred tax impact of adjustments	
Defined benefit pension scheme	(103)
FRS 101	<u>4,043</u>

A Defined Benefit Pension schemes

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

At 1 April 2014 and 31 March 2015, the net deficit of the plan was £25,000,000 and £31,000,000 respectively. This is the difference between the contributions paid and the defined benefit accounting recorded in profit and loss. The amount recognised in other comprehensive income during the year ended 31 March 2015 was £5,000,000 and relates to the actuarial movement during the year. The additional expense recognised in the income statement under FRS 101 is £1,000,000.

B Other Adjustments arising on transition to FRS 101

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or income statement but which have affected the presentation of these items on the Balance sheet. The main items are:

Computer software, with a net book value of £353,000 at 1 April 2015, has been reclassified from tangible to intangible assets as required under FRS 101. This has no effect on the Company's net assets nor on the profit for the year

Notes to the Financial Statements *(continued)*

22 Transition to FRS 101 *(continued)*

Total equity	31 March 2015 £'000	1 April 2014 £'000
UK GAAP – As previously reported	3,342	3,868
Defined benefit pension scheme	875	(514)
Deferred tax impact of adjustments - Defined benefit pension scheme	(180)	102
FRS 101 Total Equity	3,613	3,456