

**Babcock Fire Services Limited
(formerly VT Fire Services
Limited)**

Directors' report and financial
statements for the year ended
31 March 2011

Registered number 3707192

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**Babcock Fire Services Limited (formerly VT
Fire Services Limited)
Directors' report and financial statements**

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**Babcock Fire Services Limited (formerly VT
Fire Services Limited)
Directors' report and financial statements**

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

Principal activities

The company's principal activities are the design, construction and maintenance of fire fighting training units for use in the provision of fire fighting training to the Royal Navy under a single contract which runs until 2021

Name change

On 9 July 2010 the company changed its name from VT Fire Services Limited to Babcock Fire Services Limited

Review of the business

Key performance indicators:

	2011	2010
	£'000	£'000
Turnover	£4,845	£5,120
Operating profit	£2,423	£2,717

On 9 July 2010 Babcock International Group PLC acquired the entire issued share capital of VT Group plc, previously the ultimate parent undertaking of the company. During the year the main activity of the company was the maintenance of the Fire Fighting Training Units for the Naval Training Command (NTC) at Portsmouth and Plymouth through its sub-contract from Flagship Fire Fighting Training Limited (formerly VT Flagship Fire Fighting Training Limited). The company's performance is monitored by a variety of qualitative measures in terms of service delivery that can result in performance deductions. To date the level of performance deductions has remained below original expectations and together with close cost control has resulted in the financial results being in line with management expectations for the year.

The company has 10 years remaining of the original contract with the NTC in respect of the operation of the facilities, providing visibility of future trading income.

Future developments

The fire fighting training units contract has a requirement for a Value for Money (VFM) submission every 5 years from the commencement of the contract. This was due in June 2011 for the period up to 31st March 2011. The benchmark for the VFM review is a 25% Internal Rate of Return (IRR) for the project, taking into account historical results and future expected performance for future years. The calculation has resulted in a 25.43% IRR, £1.5m excess operating profit. The excess profit will be paid each March in equal instalments to Flagship Fire Fighting Training Limited (formerly VT Flagship Fire Fighting Training Limited) over the next 5 years.

Principal Risks and Uncertainties

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

**Babcock Fire Services Limited (formerly VT
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Directors' report and financial statements**

Directors' report *(continued)*

Principal Risks and Uncertainties *(continued)*

The key risk facing the company is maintaining high quality delivery to the client, ensuring that the fire fighting training facilities are available as and when required to avoid performance deductions. This is mitigated by ensuring that there is a close working relationship with the NTC and a detailed costed maintenance schedule is in place based upon historical experience of managing similar contracts.

Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 39 to 45 of the annual report of Babcock International Group PLC, which does not form part of this report.

In addition the company is susceptible to interest rate fluctuations on long term borrowings. The company has managed this risk by the use of an interest rate swap to achieve a fixed rate borrowing.

Results and Dividends

The company's profit for the financial year is £1,087,000 (2010: profit £1,118,000). The directors do not recommend the payment of a final dividend (2010: £nil). No interim dividend was paid in the year (2010: £nil).

Directors

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

JR Davies	
PJ Harrison	(resigned 9 July 2010)
F Martinelli	(appointed 9 July 2010)

Qualifying third-party and pension scheme indemnity provisions

The directors of the company are, and were during the year to 31 March 2011, entitled to be indemnified by the company of which they are or were directors against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 estimates that are reasonable and prudent,

**Babcock Fire Services Limited (formerly VT
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Directors' report and financial statements**

Directors' report *(continued)*

Statement of directors' responsibilities *(continued)*

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the 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 its 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.

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that

- so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and
- each director has taken steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

During the year the company changed its auditor to PricewaterhouseCoopers LLP, as a result in the change of ownership of the company's ultimate parent. The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually.

By order of the board


JR Davies
Director

25th
August 2011

Babcock Fire Services Limited
(formerly VT Fire Services Limited)

Independent auditors' report to the members of Babcock Fire Services Limited
(formerly VT Fire Services limited)

We have audited the financial statements of Babcock Fire Services Limited (formerly VT Fire Services Limited) for the year ended 31 March 2011 which comprise the Profit and Loss account, Balance Sheet and related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2 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). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

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. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 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

Opinion on other matter prescribed by the Companies Act 2006

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

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

**Independent auditors' report to the members of Babcock Fire Services Limited
(formerly VT Fire Services Limited) (continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- 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, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

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Alan Kinnear (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
26 August 2011

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**
Directors' report and financial statements

Profit and loss account
for the year ended 31 March 2011

	<i>Note</i>	2011 £000	2010 £000
Turnover	2	4,845	5,120
Operating costs		<u>(2,422)</u>	<u>(2,403)</u>
Operating profit		2,423	2,717
Interest receivable and similar income	4	29	24
Interest payable and similar charges	5	<u>(839)</u>	<u>(910)</u>
Profit on ordinary activities before taxation	6	1,613	1,831
Tax on profit on ordinary activities	7	<u>(526)</u>	<u>(713)</u>
Profit for the financial year	14	<u>1,087</u>	<u>1,118</u>

The above results all relate to continuing activities

There are no recognised gains or losses other than the profit (*2010 profit*) for the financial year reported above and therefore no separate statement of total recognised gains and losses has been presented. There is also no difference between the profit (*2010 profit*) on ordinary activities before taxation and the profit (*2010 profit*) for the financial year stated above, and their historical cost equivalents

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Balance sheet
at 31 March 2011

	Note	2011 £000	2010 £000
Fixed assets			
Tangible assets	8	<u>7,102</u>	<u>8,432</u>
Current assets			
Debtors	9	<u>5,826</u>	5,718
Cash at bank and in hand		<u>7,868</u>	<u>5,774</u>
		13,694	11,492
Creditors: amounts falling due within one year	10	<u>(3,342)</u>	<u>(2,344)</u>
Net current assets		<u>10,352</u>	<u>9,148</u>
Total assets less current liabilities		17,454	17,580
Creditors' amounts falling due after more than one year	11	<u>(10,303)</u>	<u>(11,297)</u>
Provisions for liabilities and charges	12	<u>(581)</u>	<u>(800)</u>
Net assets		<u>6,570</u>	<u>5,483</u>
Capital and reserves			
Called up share capital	13	50	50
Profit and loss account	14	<u>6,520</u>	<u>5,433</u>
Shareholders' funds	15	<u>6,570</u>	<u>5,483</u>

The financial statements on pages 6 to 15 were approved by the board of directors on ^{25th} August 2011 and were signed on its behalf by



JR Davies
Director

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements

Basis of preparation

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

Under Financial Reporting Standard 1 (Revised 1996), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking

In addition, advantage has been taken of the exemption available under Financial Reporting Standard 8 not to disclose details of transactions with Babcock International Group PLC or other group undertakings, as the consolidated financial statements of Babcock International Group PLC in which the company is included are publicly available

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

Turnover

Turnover represents the value of goods and services provided net of value added tax, other sales taxes and trade discounts

Turnover 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

Rendering of services

Turnover from services rendered is recognised by reference to the stage of completion of the transaction. Turnover from services provided on a short-term or one-off basis is recognised when the service is complete. The provision of services over a long-term period are treated as construction contracts, and the turnover recognised as set out below

Construction contracts

Turnover from construction contracts, including long-term service provision contracts, is recognised by reference to the stage of completion of the contract. The stage of completion is determined by the costs incurred on the contract to date, to the extent that such costs represent progress made on the project. A prudent level of profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed. An expected loss on a contract is recognised immediately in the profit and loss account

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes (continued)

1 Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at historic purchase cost less accumulated depreciation

The cost of tangible fixed assets comprises the purchase price and any directly attributable costs incurred in acquiring the assets

Depreciation is provided on tangible fixed assets, at rates calculated to write off the cost less residual value of each asset on a straight line basis over the expected useful life as follows

Leasehold land and buildings	-	20 years
Plant and machinery	-	1 – 20 years

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting in respect of all timing differences between the treatment of certain items for taxation and accounting which have arisen, but not reversed, by the balance sheet date, except as otherwise required by FRS 19

Deferred tax assets are recognised only to the extent that, in the opinion of the directors, there is a reasonable probability that the asset will crystallise in the foreseeable future. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom

3 Remuneration of directors

The directors of the company are remunerated by other Babcock International Group PLC companies. It is not possible to make an accurate apportionment of directors' emoluments relating to services provided to the company and as such no disclosure of emoluments received by the directors has been made in the financial statements. The company employs no staff (2010 none)

4 Interest receivable and similar income

	2011 £000	2010 £000
On bank deposits	<u>29</u>	<u>24</u>

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes *(continued)*

5 Interest payable and similar charges

	2011 £000	2010 £000
Interest payable to fellow group undertaking	107	107
Interest on bank loan	732	803
	<u>839</u>	<u>910</u>

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2011 £000	2010 £000
Depreciation - owned tangible fixed assets	1,423	1,482
Services provided by the company's auditor		
Audit of the financial statements - previous auditor	-	5
Taxation services	4	-
Financial modelling	22	-
	<u>1,449</u>	<u>1,487</u>

Audit fees of £5,000 were paid to PricewaterhouseCoopers LLP by fellow group undertaking VT Flagship Limited

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 to the financial statements of the ultimate parent undertaking, Babcock International Group PLC

7 Tax on profit of ordinary activities

	2011 £000	2010 £000
<i>Current tax</i>		
UK corporation tax on profits of the year	745	763
Adjustments in respect of prior years	-	(5)
Total current tax charge	<u>745</u>	<u>758</u>
<i>Deferred tax</i>		
Ongination and reversal of timing differences	(180)	(76)
Adjustments in respect of deferred tax for prior years	6	31
Impact of change in UK tax rates	(45)	-
Total deferred tax credit (note 12)	<u>(219)</u>	<u>(45)</u>
Tax on profit of ordinary activities	<u>526</u>	<u>713</u>

**Babcock Fire Services Limited (formerly VT
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Notes (continued)

7. Tax on profit of ordinary activities (continued)

Factors affecting the tax charge for the current year

The tax charge for the current year (2010 charge) was higher (2010 higher) than the standard rate of corporation tax in the UK of 28% (2010: 28%) The differences are explained below.

	2011	2010
	£000	£000
Profit on ordinary activities before tax	<u>1,613</u>	<u>1,831</u>
Profit on ordinary activities multiplied by standard rate in UK of 28% (2010: 28%)	451	513
<i>Effects of</i>		
Expenses not deductible for tax purposes	-	(14)
Depreciation on assets not qualifying for allowances	114	188
Depreciation in excess of capital allowances	180	76
Adjustments in respect of prior years	<u>-</u>	<u>(5)</u>
Total current tax charge for the year	<u>745</u>	<u>758</u>

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement. The rate of corporation tax was reduced from 28% to 26% with effect from 1 April 2011. Closing deferred tax balances have therefore been valued at 26%. Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 was substantively enacted on 5 July 2011 in the Finance Act 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes (continued)

8 Tangible assets

	Leasehold land and buildings £000	Plant and machinery £000	Total £000
Cost			
At 1 April 2010	8,071	12,459	20,530
Additions	-	93	93
At 31 March 2011	<u>8,071</u>	<u>12,552</u>	<u>20,623</u>
Accumulated depreciation			
At 1 April 2010	3,683	8,415	12,098
Charge for year	405	1,018	1,423
At 31 March 2011	<u>4,088</u>	<u>9,433</u>	<u>13,521</u>
Net book value			
At 31 March 2011	<u>3,983</u>	<u>3,119</u>	<u>7,102</u>
At 31 March 2010	<u>4,388</u>	<u>4,044</u>	<u>8,432</u>

9 Debtors

	2011 £000	2010 £000
Amounts recoverable on contracts	5,316	4,841
Accrued income	-	512
Amounts owed by group undertakings	510	365
	<u>5,826</u>	<u>5,718</u>

10 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Bank loan (secured – see note 11)	1,024	962
Amounts owed to group undertakings	1,159	1,134
Corporation tax	745	-
Other taxation and social security	382	194
Accruals and deferred income	32	54
	<u>3,342</u>	<u>2,344</u>

Babcock Fire Services Limited (formerly VT Fire Services Limited)

Notes (continued)

11 Creditors: amounts falling due after more than one year

	2011	2010
	£000	£000
Bank loan (secured)	9,280	10,304
Amounts owed to group undertakings	1,023	993
	<u>10,303</u>	<u>11,297</u>

The bank loan to Barclays Bank plc is secured by a fixed and floating charge over the shares and assets of Babcock Fire Services Limited (formerly VT Fire Services Limited)

	2011	2010
	£000	£000
Amounts due		
In one year or less	1,024	962
In more than one year but not more than two years	1,090	1,024
In more than two years but not more than five years	5,112	3,487
In more than five years	3,078	5,793
	<u>10,304</u>	<u>11,266</u>

The bank loan is repayable by six-monthly capital and interest instalments and bears interest at a fixed rate of 5.45% (See note 16). The loan is due to be repaid in full by 31 March 2019. The Group loan is repayable by six-monthly capital and interest instalments and bears interest at a fixed rate of 8%.

12 Provisions for liabilities and charges

	Deferred taxation £000
At 1 April 2010	800
Current year credit	(180)
Prior year adjustment	6
Impact of change in UK tax rate	(45)
At 31 March 2011	<u>581</u>

The deferred taxation liability is analysed as follows

	2011	2010
	£000	£000
Accelerated capital allowances	<u>581</u>	<u>800</u>

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes *(continued)*

13 Called up share capital

	2011	2010
	£000	£000
Allotted, called up and fully paid 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>

14 Reserves

	Profit and loss account £000
At 1 April 2010	5,433
Profit for the year	<u>1,087</u>
At 31 March 2011	<u>6,520</u>

15 Reconciliation of movements in shareholder's funds

	2011	2010
	£000	£000
Profit for the financial year	1,087	1,118
Interim dividend paid	<u>-</u>	<u>-</u>
Net increase to shareholders' funds	1,087	1,118
Opening shareholders' funds	<u>5,483</u>	<u>4,365</u>
Closing shareholders' funds	<u>6,570</u>	<u>5,483</u>

16 Fair Values of Financial Assets and Financial liabilities

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2011 was £10.7m (2010 £11.7m)

At 31 March 2011, the fixed interest rates is 5.45% and the floating rate is 1.03% (GBP-LIBOR-BBA)

The Mark to Market valuation of the interest rate swap as at 31 March 2011 was a liability for £1.1m (2010 liability for £1.3m)

**Babcock Fire Services Limited (formerly VT
Fire Services Limited)**

Notes *(continued)*

17 Ultimate parent undertaking

The immediate parent undertaking of the company is Vosper Thornycroft (UK) Limited, a company incorporated in Great Britain and registered in England and Wales

Since the acquisition of VT Group plc by Babcock International Group PLC on 9 July 2010, the ultimate parent undertaking and controlling party is Babcock International Group PLC, a company incorporated in Great Britain and registered in England and Wales

Copies of Babcock International Group PLC consolidated financial statements can be obtained from the Company Secretary at 33 Wigmore Street, London, W1U 1QX