Babcock Fire Services Limited

Annual report

For the year ended 31 March 2016

Company registration number:
03707192

Directors and advisors

Directors

N Anderson
P Kingshott
R Taylor
I Urquhart
N Borrett
R Hardy
B O'Connor

Company Secretary

Babcock Corporate Secretaries Limited

Registered Office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Oceana House
39-49 Commercial Road
Southampton
SO15 1GA

Strategic report

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

Principal activities

The Company's principal activities are the design, construction and maintenance of firefighting training units for use in the provision of firefighting training to the Royal Navy under a sub contract arrangement with Flagship Fire Fighting Training Limited, which runs until 2021.

Business review

	2016	2015
	£000	£000
Revenue	**3,264**	342
Profit / (loss) for the financial year	**1,242**	(1,800)

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

The prior year result reflected the revised profitability of the contract to date using the latest estimate of total revenue over the life of this long term contract.

During the year the main activity of the Company was the maintenance of the firefighting training units for the Naval Training Command (NTC) at Portsmouth and Plymouth through its sub-contract from 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.

Further to a wider review of PFI contracts by the Government, the Ministry of Defence negotiated revised terms with Flagship Fire Fighting Training Limited to take effect from 1 April 2014. The effect of the revised terms on Babcock Fire Services Limited is to reduce the value of its contract with Flagship Fire Fighting Training Limited over the remaining term.

The Company has 5 years remaining of the original contract with the NTC in respect of the operation of the facilities, providing strong visibility of future trading income.

Future developments

The firefighting training units contract has a requirement for a Value For Money (VFM) submission every 5 years from the contract start. The next Value For Money review is due in 2016.

Strategic report *(continued)*

Principal risks and uncertainties

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

The key risk facing the Company is maintaining high quality delivery to the client, ensuring that the firefighting training facilities are available as and when required to avoid performance deductions. This is mitigated in conjunction with the lead contractor 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 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Babcock Defence and Security, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 42 to 45 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

P Kingshott

Director

30th June 2016

Directors' report

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

Results and dividends

The Company's results for the year are set out in the Statement of Comprehensive Income on page 10 showing a profit for the financial year of £1,242,000 (*2015: loss of £1,800,000*). At 31 March 2016 the Company had net assets of £3,084,000 (*2015: £8,842,000*).

A dividend of £7,000,000 was paid in the year (*2015: £nil*).

The company has adopted FRS 102 in the financial statements. The impact of the transition to FRS 102 is disclosed in note 19.

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 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.

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 for the year ended 31 March 2016 *(continued)*

Financial risk management *(continued)*

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.

As 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 borrowing rate.

Directors

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

N Anderson	
N Borrett	Appointed 1 December 2015
J Davies	Resigned 1 December 2015
A Dungate	Resigned 1 December 2015
R Hardy	Appointed 1 December 2015
P Kingshott	
F Martinelli	Resigned 1 December 2015
B O'Connor	Appointed 1 December 2015
R Stoate	Resigned 1 December 2015
R Taylor	
I Urquhart	Appointed 1 December 2015
S White	Resigned 6 June 2016

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, 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 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" (FRS102).

Directors' report *(continued)*

Statement of directors' responsibilities *(continued)*

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 United Kingdom Accounting Standards including FRS102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS102 used in the preparation of 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 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.

Directors' protection

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

P Kingshott
Director
30th June 2016

Independent auditors' report to the members of Babcock Fire Services Limited

Report on the financial statements

Our opinion

In our opinion, Babcock Fire Services 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 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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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.

Independent auditors' report to the members of Flagship Fire Services Limited (continued)

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 Statement of directors' responsibilities set out on pages 5 and 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 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;

Independent auditors' report to the members of Flagship Fire Services Limited (continued)

What an audit of financial statements involves (continued)

- 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.

Michael Coffin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
30 June 2016

Statement of Comprehensive Income
for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Revenue	4	**3,264**	342
Cost of sales		**(1,899)**	(1,880)
Operating profit/(loss)	6	**1,365**	(1,538)
Interest receivable and similar income	5	**274**	233
Interest payable and similar charges	5	**(413)**	(509)
Profit/loss on ordinary activities before taxation		**1,226**	(1,814)
Tax on profit/(loss) on ordinary activities	8	**16**	14
Total comprehensive income/(expense) and profit/(loss)for the year		**1,242**	(1,800)

Balance Sheet
as at 31 March 2016

	Note	2016 £000	2015 £000
Fixed Assets			
Tangible assets	9	3,331	4,154
		3,331	4,154
Current assets			
Debtors – amounts falling due within one year	10	362	333
Cash and cash equivalents		7,510	13,391
		7,872	13,724
Creditors – amounts falling due within one year	11	(4,255)	(3,311)
Net current assets		3,617	10,413
Total assets less current liabilities		6,948	14,567
Creditors – amounts falling due after more than one year	12	(3,718)	(5,563)
Provisions for liabilities	13	(146)	(162)
Net assets		3,084	8,842
Capital and reserves			
Called up share capital	16	50	50
Retained earnings		3,034	8,792
Total Equity		3,084	8,842

The financial statements on pages 10-24 were approved by the board of directors and signed on its behalf by:

P Kingshott
Director
3rd June 2016

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

	Note	Share capital £000	Retained earnings £000	Total £000
Balance at 1 April 2014		50	10,592	10,642
Loss for the year		-	(1,800)	(1,800)
Balance at 31 March 2015		50	8,792	8,842
Balance at 1 April 2015		50	8,792	8,842
Profit for the year			1,242	1,242
Dividends paid	15		(7,000)	(7,000)
Balance at 31 March 2016		50	3,034	3,084

The notes on pages 13-24 form an integral part of these financial statements.

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

1 Statement of Compliance

Babcock Fire Services 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.

The financial statements of Babcock Fire Services Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland" ("FRS 102") and the Companies Act 2006.

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 adopted FRS 102 in these financial statements. Details of the transition to FRS 102 are disclosed in note 19.

Basis of preparation

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss.

The preparation of financial statements in conformity with FRS 102 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 has taken advantage of the disclosure exemption in FRS 102 paragraph 1.12 from preparing a Cash Flow Statement required by Section 7 and para 3.17 (d) of FRS 102.

The Company has taken advantage of the exemption in FRS 102 paragraph 35.10 (i) from the application of operator accounting of service concession arrangements which had been entered into prior to transition to FRS 102.

The company discloses transactions with related parties which are not wholly owned within the same group. It does not disclose transactions with members of the same group that are wholly owned.

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 Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered net of value added tax.

Notes to the financial statements *(continued)*

Accounting policies *(continued)*

Rendering of services
Revenue from services rendered is recognised by reference to the stage of completion of the transaction. Revenue 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 is treated as set out below.

Long-term contracts
Revenue 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. 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. Amounts due from customers for contract work are disclosed within debtors and payments received on account are disclosed within creditors.

Deferred and accrued income

The timing of billings to the customer does not always reflect the pattern of revenue recognition. Where amounts invoiced to the customer exceed the amount that has been recognised as Revenue within the profit and loss account the difference is held as a liability on the balance sheet in deferred income to the extent that the cash has been received from the customer. Where the amount that has been recognised as Revenue within the profit and loss account exceeds the amounts invoiced to the customer the difference is held as an asset on the balance sheet in accrued income to the extent that the cash has not been received from the customer.

Tangible assets

Tangible fixed assets are stated at cost less accumulated depreciation and any provision for impairment in value. Cost includes the original purchase price of the asset and the costs directly attributable to bring the asset to its working condition for its intended use.

Depreciation on equipment is provided on a straight line basis over the estimated useful lives as follows:

Plant and machinery	4 to 20 years
Leasehold buildings	20 years

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

a) *Current Tax*

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or

Notes to the financial statements *(continued)*

Accounting policies *(continued)*

Taxation *(continued)*

substantively enacted by the period end.

b) *Deferred Tax*

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

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.

Interest payable

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the group 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 loans and receivables is recognised using the original effective interest rate.

Trade and other receivables

Trade and other receivables 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.

Notes to the financial statements *(continued)*

Accounting policies *(continued)*

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Financial Instruments

The company has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price.

Derivatives, including interest rate swaps, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The company does not currently apply hedge accounting for interest rate derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Provisions for liabilities

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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

Onerous contracts are recognised immediately in the profit and loss account and a provision made in the balance sheet to be unwound over the remaining life of the contract.

Notes to the financial statements *(continued)*

Functional currency

The company's functional and presentational currency is pound sterling.

Distributions to equity holders

Dividends and other distributions to the company's shareholders are recognised as a liability in the financial statements in the period in which the dividends and other distributions are approved by the company's shareholders. These amounts are recognised in the statement of changes in equity.

3 Critical accounting judgements

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.

a) The Company makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience.

b) The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and is of United Kingdom origin and destination.

5 Interest receivable/(payable) and similar income/(charges)

	2016	2015
	£000	£000
Interest receivable and similar income		
Bank interest receivable	46	57
Gains on derivative financial instrument	228	176
	274	233
Interest payable and similar charges		
Interest payable on bank loans	(368)	(452)
Loan interest payable to group undertakings	(45)	(57)
	(413)	(509)

Included in interest on bank loans are amounts relating to an interest rate swap agreement with Barclays Bank plc, whereby the variable interest rate on the loan is swapped with a fixed interest rate (note 14).

Notes to the financial statements *(continued)*

6 Operating profit/(loss)

Operating profit/(loss) is stated after charging:

	2016 £000	2015 £000
Depreciation - owned property, plant & equipment (note 9)	**842**	866

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

Fees payable for the audits of the company of £7,000 (*2015: £5,000*) have been borne by Babcock Flagship Limited.

7 Directors' remuneration and employee information

None of the directors received remuneration for their services to the Company as the services provided to the Company are incidental to their wider role in the group (*2015: £nil*). The Company employs no staff (*2015: none*).

8 Tax on profit/(loss) on ordinary activities

	2016 £000	2015 £000
Current tax		
UK Corporation tax on profits/losses for the year	-	-
Current tax charge for the year	**-**	-
Deferred tax (Note 13)		
Origination and reversal of timing differences	**(7)**	(14)
Adjustments in respect of deferred tax for prior years	**7**	(1)
Impact of change in UK tax rate	**(16)**	1
Total deferred tax credit	**(16)**	(14)
Tax on profit/loss on ordinary activities	**(16)**	(14)

Notes to the financial statements *(continued)*

8 Tax on profit/(loss) on ordinary activities (continued)

The tax assessed for the year is lower (*2015: lower*) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (*2015: 21%*). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before taxation	**1,226**	(1,814)
Tax on (loss)/profit on ordinary activities multiplied by standard UK Corporation tax rate of 20% (2015: 21%)	**245**	(381)
Effects of:		
Adjustment in respect of deferred tax for prior years	**7**	(1)
Expenses not deductible for tax purposes	**81**	85
Group relief for nil consideration	**(333)**	282
Impact of change in UK tax rate	**(16)**	1
Total tax credit for the year	**(16)**	**(14)**

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.

9 Tangible assets

	Leasehold land & buildings £000	Plant & machinery £000	Total £000
Cost			
At 1 April 2015	8,071	12,861	20,932
Additions	-	19	19
At 31 March 2016	**8,071**	**12,880**	**20,951**
Accumulated depreciation			
At 1 April 2015	5,708	11,070	16,778
Charge for the year	405	437	842
At 31 March 2016	**6,113**	**11,507**	**17,620**
Net book value			
At 31 March 2016	**1,958**	**1,373**	**3,331**
At 31 March 2015	2,363	1,791	4,154

Notes to the financial statements *(continued)*

10 Debtors

Amounts falling due within one year:	2016 £000	2015 £000
Amounts owed by group undertakings	362	-
Amounts recoverable on contracts	-	333
	362	333

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

11 Creditors - amounts falling due within one year

	2016 £000	2015 £000
Bank loan (secured)	1,457	1,368
Amounts owed to group undertakings	1,028	928
Derivative financial instruments (note 14)	120	139
Accruals and deferred income	662	-
Other taxation and social security	242	130
UK corporation tax payable	746	746
	4,255	3,311

With the exception of the group loan element described below, amounts owed to group undertakings are unsecured, interest free and repayable on demand.

With the exception of derivative financial instruments, which are carried at fair value through profit and loss, all financial liabilities of the company are carried at amortised cost.

12 Creditors - amounts falling due after more than one year

	2016 £000	2015 £000
Bank loan (secured)	3,201	4,658
Derivative financial instruments (note 14)	264	473
Amounts owed to group undertakings	253	432
	3,718	5,563

The bank loan from Barclays Bank plc is secured by a fixed and floating charge over the shares and assets of Babcock Fire Services Limited.

Notes to the financial statements *(continued)*

12 Creditors - amounts falling due after more than one year *(continued)*

Analysis of external bank debt:	**2016**	2015
	£000	£000
Amounts due:		
In one year or less	1,457	1,368
In more than one year but not more than two years	1,551	1,457
In more than two years but not more than five years	1,650	3,201

The bank loan is repayable by six-monthly capital and interest instalments and bears interest at a fixed rate of 5.45% (note 13). The loan is due to be repaid in full by 31 March 2019.

The group loan of £433,000 (*2015: £598,000*), included within amounts owed to group undertakings, is repayable by bi-annual capital and interest instalments and bears interest at a fixed rate of 8%. The loan is due to be fully repaid by 30 September 2018. The loan outstanding is split between amounts falling due within one year of £180,000 (*2015: £166,000*) and amounts falling due after more than one year of £253,000 (*2015: £432,000*).

13 *Provisions for liabilities*

The major components of the deferred tax liability are as follows:

	2016	2015
	£000	£000
Accelerated capital allowances	**215**	284
Derivative financial liability	**(69)**	(122)
	146	162

The movement on the deferred tax liability for 2015 is as follows:

	£000
At 1 April 2014	176
Current year movement	(14)
Impact of change in UK tax rate	1
Prior year adjustment	(1)
At 31 March 2015	162

The movement on the deferred tax liability for 2016 is as follows:

	£000
At 1 April 2015	162
Current year movement	(7)
Impact of change in UK tax rate	(16)
Prior year adjustment	7
At 31 March 2016	146

Notes to the financial statements *(continued)*

14 Other financial liabilities

Included in Derivative financial instruments at fair value:

	2016 £000	2015 £000	2014 £000
Interest rate swap - fair value hedges	**384**	612	788
Current portion	**384**	612	788

The company has an interest rate swap with Barclays Bank Plc whereby it pays a fixed interest rate of 5.45% and a floating rate of 0.7% (GBP-LIBOR-BBA). The swap is being used to hedge the exposure to changes in the fair value of its 5.45% secured loan. The secured loan and interest rate swap have the same critical terms. The fair value of the interest rate swap at the reporting date was £384,000 (*2015: £612,000*).

The fair value of the interest rate swap is the Mark to Market valuation as at the reporting date.

The Company has taken advantage of the exemptions within FRS 102 sections 11 and 12 not to disclose all requirements, on the basis that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available with compliance to IFRS.

15 Dividends

	2016 £000	2015 £000
Equity – ordinary		
Interim paid (£140 per £1 share)	**7,000**	-

The dividend was paid on 10 July 2015.

16 Called-up share capital

	2016 £000	2015 £000
Allotted called up and fully paid		
50,000 ordinary shares of £1 each (2015: 50,000)	**50**	50

17 Guarantees and financial commitments

Under the terms of a contract with the Government for the provision of firefighting training units, the company has an obligation to pass to the Government, at the end of the contract in 2021, relevant property plant and equipment in its ownership for the consideration of £1.

Notes to the financial statements *(continued)*

18 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 only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC financial statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

19 Transition to FRS 102

This is the first year that the Company has presented its results under FRS 102. The last financial statements under UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2014. Set out below are the changes in accounting policies which reconcile the loss for the financial year ended 31 March 2015 and the total equity as at 1 April 2014 and 31 March 2015 between UK GAAP as previously reported and FRS 102.

Profit for the financial year			**2015**
			£000
Statement of total comprehensive income - as previously reported			(1,941)
Fair value of interest rate swap	*a*	176	
Total adjustment to profit before tax for the financial year		176	
Tax impact of adjustments:	*b*	(35)	
Total adjustment to tax expense		(35)	
Total adjustment to profit for the financial year			141
FRS 102			(1,800)

Notes to the financial statements *(continued)*

Transition to FRS 102 (continued)

a Derivative financial instruments

FRS 102 requires derivative financial instruments to be recognised at fair value. Previously under UK GAAP the Company did not recognise these instruments in the financial statements. On transition to FRS 102 the Company has recognised the interest rate swap at fair value and subsequently re-measured at fair value at each reporting date. Accordingly at transition current liabilities of £788,000 were recognised; a pre-tax profit of £176,000 was recognised in the income statement for the year ended 31 March 2015 and current liabilities of £612,000 were recognised at 31 March 2015.

b Deferred taxation

Because IFRS defines deferred tax in relation to temporary differences between carrying values and their related tax bases, rather than timing differences in the income statement, an adjustment is required to recognise deferred tax (£35,000 charge in the year ended 31 March 2015) on the fair value of the interest swap to profit or loss for the year, not recognised under UK GAAP.

Total equity	31 March 2015	1 April 2014
	£'000	£'000
UK GAAP - as previously reported	9,332	11,273
Fair value of interest swap	(612)	(788)
Tax impact of adjustments		
Fair value of interest swap	122	157
FRS 102	**8,842**	**10,642**