Babcock 4S Limited

Annual report and financial statements

For the year ended 31 March 2012

Company registration number:

04889149

The directors present the annual report and audited financial statements of the company, for the year ended 31 March 2012.

Principal activities

The principal activity of the company is the provision of school support services.

Results and dividends

The company's results for the year are set out in the profit and loss account on page 8 showing a profit for the financial year after taxation of £2,366,000 *(2011: £847,000)*. At 31 March 2012 the company had net assets £4,156,000 *(2011: £3,307,000)*.

No interim dividends were paid in the current year and the directors do not recommend a final dividend *(2011: interim dividend paid of £3,804,000)*.

Business review

	2012	2011
	£'000	£'000
Turnover	**34,110**	40,235
Operating profit	**3,006**	1,305

The company successfully completed its eighth year of operation. The restructuring programme in 2011 and close resource monitoring resulted in a beneficial impact on operating profit in 2012. The Surrey Connexions contract ended in December 2011 and the Waltham Forest contract came to a close in March 2012. These two contracts contributed £2.1m and £7.5m respectively to turnover during the current year.

Going forward the company faces a number of operational risks in delivering its main contracts. All the major contracts are subject to performance measurement via the use of a large number of key performance indicators. Regular meetings are held with our clients to manage this process and to date there have been no significant contract delivery issues.

Future developments

The directors are confident about the future growth of the business. Whilst in the short term the company will continue to be adversely affected by local authority spending cuts, in the longer term the company is well placed to benefit from increased levels of local authority outsourcing.

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 Support Services, a division of Babcock International Group PLC, which includes the company, is discussed on pages 32 to 34 of the Group's report, which does not form part of this report.

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 at board level supplemented at Babcock Group level by independent challenge and review by 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. The company's business is susceptible to individual contract performance. All of the company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary.

Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 40 to 43 of the annual report of Babcock International Group PLC, which does not form part of this report.

Financial risk management

The company's operations expose it to a variety of financial risks that include price risk, credit risk, liquidity risk and interest rate cash flow risk. The company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the company.

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 managed by the group finance department. The department has a policy and procedures manual that sets out guidelines to allow it to manage financial risks and this is applied by the company.

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.

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 ongoing 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 interest bearing assets in the form of cash balances and interest bearing intercompany receivables. It also has interest bearing liabilities in the form of pension scheme liabilities. Interest bearing assets and liabilities earn and attract 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 of the company

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

JA Fisher	
AP Khan	(resigned 26 April 2012)
AS Lewis	(appointed 26 April 2012)
KR Thomas	
S West	

Qualifying third party indemnity provisions

Under the company's respective Articles of Association, the directors of the company are, and were during the year to 31 March 2012, entitled to be indemnified by the company 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.

Political and charitable donations

During the year the company made no donations *(2011: £nil)* to charitable or political organisations.

Employment of disabled persons

The policy of the company is to give full consideration to disabled applicants for employment, having regards to their particular aptitudes and abilities, and they share in the opportunities for training, career development and promotion. If an employee becomes disabled, our objective is the continued provision of suitable employment either in the same or an alternative position, appropriate training being given if necessary.

Employee involvement

It is the policy of the company to communicate regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the bulletin 'The Big Picture'. The company routinely discusses issues affecting its employees directly.

Supplier payment policy

It is the policy of the company to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

Trade creditors days based on creditors at the end of the year was 48 days (2011: 59 days).

Statement of directors' responsibilities in respect of the annual report and financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

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

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

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

Auditors and the disclosure of information

Each director, as at the date of this report, has confirmed that insofar as they are aware there is no relevant audit information (that is, information needed by the company's auditors in connection with preparing their report) of which the company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of this information.

Independent auditors

The company has dispensed with the requirement for an Annual General Meeting and the need to appoint auditors annually.

By order of the Board 1 October 2012.

S West
Director

Independent auditors' report to the members of Babcock 4S Limited

We have audited the financial statements of Babcock 4S Limited for the year ended 31 March 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities on page 5 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 2012 and of its profit and cash flows 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.

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.

Michael Coffin (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom

2 October 2012

Profit and loss account

For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Turnover	2	**34,110**	40,235
Cost of sales		**(27,058)**	(34,635)
Gross profit		**7,052**	5,600
Administrative expenses		**(4,046)**	(4,295)
Operating profit		**3,006**	1,305
Interest receivable and similar income	3	**716**	50
Interest payable and similar charges	4	**-**	(49)
Profit on ordinary activities before taxation	5	**3,722**	1,306
Tax on profit on ordinary activities	8	**(1,356)**	(459)
Profit for the financial year	17	**2,366**	847

There is no difference between the profit on ordinary activities before taxation *(2011: profit)* and the profit for the financial year *(2011: profit)* stated above and their historical cost equivalents.

The above results all relate to continuing activities.

Statement of total recognised gains and losses

For the year ended 31 March 2012

	Notes	2012 £'000	2011 £'000
Profit for the financial year		**2,366**	847
Actuarial (loss)/gain recognised in the pension scheme	24	**(2,049)**	8,005
Movement on deferred tax relating to pension scheme	15	**532**	(2,241)
Total recognised gains and losses relating to the financial year		**849**	6,611

Balance sheet as at 31 March 2012

	Notes	2012 £'000	2011 £'000
Fixed assets			
Intangible assets	10	**-**	-
Tangible assets	11	**3**	21
		3	21
Current assets			
Debtors	12	**16,456**	6,512
Cash at bank and in hand		**6,110**	12,865
		22,566	19,377
Creditors – amounts falling due within one year	13	**(14,293)**	(12,621)
Net current assets		**8,273**	6,756
Total assets less current liabilities		**8,276**	6,777
Provisions for liabilities	14	**(2,448)**	(2,274)
Net assets before pension liability		**5,828**	4,503
Pension liability	24	**(1,672)**	(1,196)
Net assets after pension liability		**4,156**	3,307
Capital and reserves			
Called-up share capital	16	**1**	1
Share premium account	17	**1,999**	1,999
Profit and loss account	17	**2,156**	1,307
Total shareholder's funds	18	**4,156**	3,307

The financial statements on pages 8-29 were approved by the board of directors and signed on its behalf by:

S West
Director
1 October 2012

	Notes	**2012 £'000**	2011 £'000
Net cash inflow from operating activities	19	**5,173**	170
Returns on investment and servicing of finance			
Interest received		**80**	50
Taxation		**(2,008)**	-
Capital expenditure and financial investment			
Intercompany loan issued		**(10,000)**	-
Equity dividends paid		**-**	(3,804)
Decrease in cash	21	**(6,755)**	(3,584)

1. Accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis, under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. A summary of the more important company accounting policies which have been consistently applied is set out below.

Turnover

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 or as the company fulfils contractual obligations. Turnover from services provided on a short-term or one-off basis is recognised when the service is complete.

Long-Term Contracts
Turnover from 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.

Tangible fixed assets and depreciation

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

Depreciation is provided on a straight line basis to write off the cost of all tangible fixed assets over their estimated useful lives or contract period if shorter, to their estimated residual value as follows:

Leasehold improvements	7 years
Computer equipment	3 years
Office equipment	7 years

Intangible fixed assets

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

(i) Goodwill

Purchased goodwill, (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired), arising in respect of acquisitions, is capitalised. Purchased goodwill is amortised to nil by equal annual instalments over its estimated useful life to a maximum of 20 years. The goodwill capitalised on the company balance sheet is being amortised over 7 years. It is reviewed for impairment at each and every financial year-end and if events, or changes in circumstances, indicate that, the carrying value may not be recoverable.

1. Accounting policies (continued)

(ii) Intangible fixed assets and amortisation

Intangible fixed assets purchased separately from a business are capitalised at cost. The intangible fixed assets are then amortised to nil on a straight-line basis over their economic useful lives.

Taxation

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

Pensions costs and other post retirement benefits

The company participates in a number of pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the company, being invested with independent trustee administered funds. The company is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis for all but one of the pension arrangements and therefore, as required by FRS 17 'Retirement benefits', accounts for these schemes as if they were defined contribution arrangements. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

For the scheme were the company is able to identify its share of the underlying assets and liabilities, pension scheme assets are measured using market values and pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The pension scheme deficit is recognised in full. The amounts charged to operating profit are the current service costs and gains and losses on settlements. They are included as part of staff costs. The interest cost and expected return on assets are shown net as other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The company also operates a number of defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the schemes.

Leases

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

1. Accounting policies (continued)

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.

Provisions

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 an obligation and a reliable estimate can be made of the amount of the obligation.

2. Turnover

Turnover represents the amounts, excluding value added tax, derived from the provision of services to customers and is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3. Interest receivable and similar income

	2012 £'000	2011 £'000
Bank interest	**80**	50
Net expected return on pension scheme assets (note 24)	**600**	-
Loan interest receivable from group undertaking	**36**	-
	716	50

4. Interest payable and similar charges

	2012 £'000	2011 £'000
Net expected return on pension scheme assets (note 24)	**-**	(49)
	-	(49)

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2012 £'000	2011 £'000
Depreciation – owned fixed assets (note 11)	**18**	208
Goodwill amortisation (note 10)	**-**	100
Amortisation of other intangible assets (note 10)	**-**	8
Auditors' remuneration		
- audit fees	**28**	27
- other services	**-**	-
Operating lease rentals		
- other	**1,108**	1,162

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 Babcock International Group PLC.

In the year ended 31 March 2011, £1,917,000 of redundancy costs were incurred as a result of the restructuring activities.

6. Staff costs

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

	2012 Number	2011 Number
Operations	**335**	383
Sales	**1**	1
Administration and management	**45**	47
	381	431

Their aggregate remuneration comprised:

	2012 £'000	2011 £'000
Wages and salaries	**13,912**	15,856
Social security costs	**1,358**	1,460
Other pension costs (note 24)	**1,257**	2,109
	16,527	19,425

7. Directors' remuneration

The remuneration of the directors paid by the company was as follows:

	2012 £'000	2011 £'000
Aggregate remuneration	**-**	127
Contributions to defined contribution pension schemes	**-**	8
	-	135

No directors received remuneration from the company in the current year *(2011: one)*.

All of the directors of the company are subject to service agreements with, and are remunerated by, other group or related party companies. It is not possible to make an accurate apportionment of their emoluments resulting to services provided to the company.

In the current year, no directors were members of a defined benefit pension scheme *(2011: nil)*.

8. Tax on profit on ordinary activities

	2012 £'000	2011 £'000
Current tax		
UK Corporation tax on profits of the period	**512**	800
Current tax charge for the year	**512**	800
Deferred tax:		
Origination and reversal of timing differences	**463**	(457)
Adjustment in respect of prior years:	**319**	35
Impact of change in UK tax rate	**62**	81
Total deferred tax (credit)/charge	**844**	(341)
Tax on profit on ordinary activities	**1,356**	459

Factors affecting the current year tax charge

The tax assessed for the year is lower *(2011: higher)* than the standard effective rate of corporation tax in the UK for the year ended 31 March 2012 of 26% *(2011: 28%)*. The differences are explained below:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	**3,722**	1,306
Tax on profit on ordinary activities at standard UK corporation tax rate of 26% *(2011: 28%)*	**967**	365
Effects of:		
Timing differences	**(463)**	391
Expenses not deductible for tax purposes	**8**	44
Group relief claimed for nil consideration	**-**	-
Current tax charge for the year	**512**	800

Factors affecting current and future tax charges

The Finance Act 2011 was substantively enacted on 19 July 2011 and included legislation to reduce the main rate of corporation tax from 28% to 26% with effect from 1 April 2011 and to 25% with effect from 1 April 2012. This was reduced further to 24% with effect from 1 April 2012 via a Parliamentary Resolution passed on 26 March 2012. Closing deferred tax balances are valued at 24%.

The March 2012 Budget Statement also announced an intention to continue to reduce the main rate of corporation tax by 1% per annum to 22% by 1 April 2014. These changes had not been substantively enacted at the balance sheet date and, therefore, the effects of these are not included in these financial statements.

9. Dividends

	2012 **£'000**	2011 £'000
Interim dividends paid	-	3,804

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £3,325 and £5,735 per share respectively in the prior year. See note 16 for further details.

10. Intangible fixed assets

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2011 and 31 March 2012	**700**	**298**	**998**
Accumulated amortisation			
At 1 April 2011 and 31 March 2012	**700**	**298**	**998**
Net book value			
At 31 March 2011 and 31 March 2012	-	-	-

11. Tangible fixed assets

	Leasehold improve-ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2011 and 31 March 2012	**866**	**1,168**	**526**	**2,560**
Accumulated Depreciation				
At 1 April 2011	866	1,168	505	2,539
Charge for the year	-	-	18	18
At 31 March 2012	**866**	**1,168**	**523**	**2,557**
Net book value				
At 31 March 2012	**-**	**-**	**3**	**3**
At 31 March 2011	-	-	21	21

12. Debtors

	2012 £'000	2011 £'000
Due within one year:		
Trade debtors	**660**	932
Amounts owed by group undertakings	**12,260**	1,880
Amounts owed by other related parties	**1,268**	1,748
Prepayments and accrued income	**1,937**	1,249
Deferred tax (note 15)	**220**	639
Other debtors	**111**	64
	16,456	6,512

At the year end the amounts owed by group undertakings include a short term loan repayable within one year of £10,000,000 *(2011: £nil).* Interest on the loan is payable at the base rate +1.5%. The remainder owed by group undertakings are unsecured, interest free and repayable on demand.

13. Creditors - amounts falling due within one year

	2012 £'000	2011 £'000
Trade creditors	**742**	519
Amounts owed to group undertakings	**3,849**	340
Amounts owed by other related parties	**-**	151
Accruals and deferred income	**7,521**	8,308
Other taxation and social security	**1,334**	1,101
UK corporation tax payable	**512**	2,008
Other creditors	**335**	194
	14,293	12,621

The amounts owed to group undertakings are unsecured, interest free and repayable on demand.

14. Provisions for liabilities

	Contract Provisions £'000	Reorganisation Provisions £'000	Other Provisions £'000	Total £'000
At 1 April 2011	-	1,374	900	2,274
Charged to the profit and loss account	1,609	-	81	1,690
Reclassification	352	(258)	(94)	-
Transfer to Accruals	-	-	(191)	(191)
Released during the year	-	(505)	(209)	(714)
Utilised during the year	-	(611)	-	(611)
At 31 March 2012	**1,961**	**-**	**487**	**2,448**

14. Provisions for liabilities (continued)

Contract provisions
The main element of this balance is a provision for redundancy costs on contracts which are coming to an end and other legal and professional costs associated with those contracts. The majority of the provision is expected to be utilised within a year from the balance sheet with the remainder expected to be settled over within three to four years.

Re-organisation Provisions
The brought forward re-organisation provisions, which are contract related were re-classified to Contract provisions during the year.

Other provisions
Other provisions comprise Dilapidation provisions on leasehold properties. These provisions are made where the liability can be reasonably estimated. It is expected that the provisions will unwind within a three to eight year period.

15. Deferred taxation

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

	2012 Provided £'000	2011 Provided £'000	**2012 Full potential £'000**	2011 Full potential £'000
Decelerated capital allowances	**81**	106	**81**	106
Other short term timing differences	**139**	533	**139**	533
	220	639	**220**	639

The movement on the deferred tax asset is as follows:

	Deferred tax on pension scheme (note 24) £'000	Other deferred tax £'000	Total £'000
At 1 April 2011	421	639	1,060
Charged to the profit and loss account (note 8)	(425)	(419)	(844)
Recognised in the statement of total recognised gains and losses	532	-	532
At 31 March 2012	**528**	**220**	**748**

16. Called-up share capital

	2012	2011
	£'000	£'000
Allotted, issued and fully paid		
801 *(2011: 801)* "A" ordinary shares of £1 each	**1**	1
199 *(2011: 199)* "B" ordinary shares of £1 each	**-**	-
	1	1

Shares classified as equity

The ordinary A and B shares rank pari passu except for;

- In the event that any resolution is put to the shareholders to remove any Director appointed by B shareholders it shall be deemed that each B shareholder carries 1,000 votes on such resolution, and;
- Under the shareholder agreement, B shareholders are entitled to 30% of any dividends declared.

17. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2011	1	1,999	1,307	3,307
Profit for the financial year	-	-	2,366	2,366
Actuarial loss recognised in the pension scheme	-	-	(2,049)	(2,049)
Deferred tax arising on loss in the pension scheme			532	532
At 31 March 2012	**1**	**1,999**	**2,156**	**4,156**

Impact of pension scheme:

	2012	2011
	£'000	£'000
Profit and loss reserve excluding pension liability	**3,828**	2,503
Pension liability	**(1,672)**	(1,196)
Profit and loss reserve including pension liability	**2,156**	1,307

18. Reconciliation of movements in shareholder's funds

	2012 £'000	2011 £'000
Profit on ordinary activities after taxation	2,366	847
Dividends paid	-	(3,804)
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	(1,517)	5,764
Net increase in shareholder's funds	849	2,807
Opening shareholder's funds	3,307	500
Closing shareholder's funds	4,156	3,307

19. Reconciliation of operating profit to net cash inflow from operating activities

	2012 £'000	2011 £'000
Operating profit	3,006	1,305
Depreciation and amortisation	18	316
Increase in debtors	(363)	(1,411)
Increase/(decrease) in creditors	3,204	(429)
Increase in provisions	174	197
Difference between pension contributions paid and amount recognised in the profit and loss account	(866)	192
Net cash inflow from operating activities	5,173	170

20. Reconciliation of net cash flow to movement in net funds

	2012 £'000	2011 £'000
Decrease in cash in year	(6,755)	(3,584)
Net funds at beginning of year	12,865	16,449
Net funds at end of year	6,110	12,865

21. Analysis of net funds

	At 1 April 2011 £'000	Cash flow £'000	At 31 March 2012 £'000
Cash at bank	12,865	(6,755)	6,110

22. Guarantees and financial commitments

a) Contingent liabilities and capital commitments

The company at the year end had joint and several liabilities for drawn bank overdraft facilities of other group companies of £nil (2011*: £4,500,000).*

As at 31 March 2012 the company had no contracted capital commitments *(2011: nil).*

b) Operating lease commitments

	2012 Land and buildings £'000	**2012 Other £'000**	2011 Land and buildings £'000	2011 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	**481**	**42**	9	2
- between two and five years	-	**123**	719	285
- after five years	-	-	-	-
	481	**165**	728	287

23. Related party disclosures

During the year the company entered into transactions with related parties. These consisted of subsidiaries of Babcock International Group PLC and also with Surrey County Council. All transactions were on an arm's length basis. Transactions during the year and the balances outstanding at 31 March 2012 with these related parties are set out below.

The following amounts were charged to the company for services received relating to head office costs and other recharges:

23. Related party disclosures (continued)

	2012 **£'000**	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	20	2
Surrey Careers Services Limited	51	231
Babcock Careers Management Limited	807	1,124
Babcock Communications Limited	66	90
Babcock Education and Skills Limited	36	1,191
Babcock Marine (Clyde) Limited	2	-
VT Flagship Limited	-	23
Babcock Corporate Services Limited	482	886
Babcock International Group PLC	3	-
Babcock Support Services Limited	2	-
VT (UK) Limited	2	-
Babcock Lifeskills Limited	-	2
Babcock Nuclear Limited	-	3
Surrey County Council	828	742
Babcock Critical Services Limited	-	3
Babcock Infrastructure Services Limited	25	39
Babcock West Sussex Careers Limited	-	-
Babcock Training Limited	917	272

The following amounts were charged by the company for services rendered in connection with the company's principal activities and recharge of costs:

	2012 **£'000**	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	**121**	121
Surrey County Council	**20,277**	23,238
Babcock Careers Management Limited	**7**	140
Babcock Critical Services Limited	**16**	-
Babcock Education and Skills Limited	**10,308**	9,330
Babcock International Group PLC	**55**	-
Babcock Land Limited	**3**	-
Babcock Support Services Limited	**43**	-
Babcock West Sussex Careers Limited	**1**	2
Guidance Services Limited	**3**	1
VT Flagship Limited	**2**	57
Babcock Training Limited	**792**	96

In addition to the transactions above, the company paid a fellow Babcock subsidiary (Babcock Education and Skills Limited) £2,008,000 in respect of the company's 2011 tax liability. This amount will be paid to a Babcock group company who will then settle this tax liability on the company's behalf.

23. Related party disclosures (continued)

The following balances were owed to related parties at the year-end:

	2012 £'000	2011 £'000
Babcock Careers Management Limited	**(53)**	(89)
Babcock Education and Skills Limited	**-**	(11)
Babcock Corporate Services Limited	**(386)**	(161)
Surrey County Council	**-**	(151)
Babcock Infrastructure Services Limited	**(25)**	-
Babcock International Support Services Limited	**-**	(2)
Babcock Training Limited	**(3,385)**	(24)

The following balances were owed by related parties at year-end:

	2012 £'000	2011 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	**55**	28
Guidance Services Limited	**1**	-
Babcock Critical Services Limited	**3**	-
Babcock International Group PLC	**23**	-
Babcock Support Services Limited	**43**	-
Babcock Land Limited	**1**	-
Babcock Education and Skills Limited	**2,133**	1,848
Surrey County Council	**1,268**	1,748
VT (UK) Limited	**-**	-
VT Flagship Limited	**1**	4

In addition to the balances above, Babcock Education and Skills Limited owed the company £10,036,000 for a short term loan (including accrued interest) put into place in the current year (see note 12).

24. Pension commitments

Teachers Pension Scheme

The company participates in TPS (a national teachers pension scheme providing benefits based on final pensionable pay). The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement Benefits' the scheme is accounted for by the company as if the scheme was a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £234,000 *(2011: £301,000)* and there was a creditor of £26,000 *(2011: £33,000)* in the balance sheet.

24. Pension commitments (continued)

Local Government Pension Scheme – Waltham Forest Pension Fund

The company also participates in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. On 1 April 2008 a number of employees of the London Borough of Waltham Forest transferred to the company, but continued to be members of the Waltham Forest Pension Fund. The company's liability is capped at the payments actually made and the funding risk remains with the local authority accordingly this scheme is accounted for by the company as if the scheme is a defined contribution scheme. The total cost of pension contributions for employees of the company during the year was £184,000 *(2011: £298,000)* and there was a creditor of £18,000 *(2011: £25,000)* in the balance sheet.

Shipbuilding Industries Pension Scheme – Defined Contribution Scheme

The company also participates in the Shipbuilding Industries Pension Scheme (SIPS), a defined contribution pension scheme. The pension cost charge for the year includes contributions made by the company to that fund amounting to £312,000 *(2011: £293,000)* and there was a creditor of £nil *(2011: £3,000)* in the balance sheet.

Group wide pension schemes

The company, as at 1 April 2008, became a member of two larger group wide pension schemes providing benefits based on final pensionable pay. The company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the schemes have been accounted for, in these financial statements as if they were defined contribution schemes.

Group wide pension scheme – CITRUS (formerly LAWDC)

The latest full actuarial valuation was carried out as at 31 March 2009 by a qualified independent actuary. This valuation showed a funding shortfall of £4.1million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.
The pension charge for company in the year was £92,000 *(2011: £164,000)* and there was a creditor of £nil *(2011: £11,000)* in the balance sheet at the year end.

Group wide pension scheme – Shipbuilding Industries Defined Benefit Scheme

The latest full actuarial valuation was carried out as at 31 March 2010 by a qualified independent actuary. This valuation showed a funding shortfall of £87.9million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company. The pension charge for the year was £35,000 *(2011: £99,000)* and there was a creditor of £2,000 *(2011: £nil)* in the balance sheet.

Babcock International Group ("BIG") Scheme

In the current year the Shipbuilding Industries Defined Benefit Scheme and the CITRUS Scheme were both transferred into the main Babcock International Group Defined Benefit Scheme. The latest full actuarial valuation for the BIG scheme was carried out as at 1 April 2010 (pre transfer) by a qualified independent actuary. This valuation showed a funding shortfall of £43.7million. This represents the liability to Babcock International Group PLC as a whole and does not represent the liability to the company.

24. Pension commitments (continued)

Local Government Pension Scheme – Surrey Pension Fund

The company also participates in the Local Government Pension Scheme (LGPS), a centralised defined benefits scheme with the assets held in separate trustee-administered funds. During the period ended 31 March 2005 a number of employees of Surrey County Council transferred to the company, but continued to be members of the Surrey Pension Fund. Under the terms and conditions of the transfer, the associated pension fund assets and liabilities are separately identifiable and segregated for funding purposes.

The last formal valuation was carried out at 31 March 2010 and was updated for accounting purposes to 2012 by a qualified independent actuary, using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The market value of the entire LGPS scheme's assets (not just the Surrey Pension Fund section) was £1.94 billion and the actuarial value of those assets represented 72% of the liability for benefits after allowing for expected future increases in earnings.

The latest LGPS scheme valuations have been updated by the actuaries on an FRS 17 basis as at 31 March 2012. The major assumptions used in these valuations were:

	2012	2011
Rate of increase in salaries	**2.45%**	3.25%
Rate of increase in pension payments	**2.15%**	3.45%
Discount rate	**4.85%**	5.6%
Inflation assumption	**2.15%**	3.45%
Long term return on equities	**8.40%**	8.7%
Long term return on corporate bonds	**4.85%**	5.6%

	2012 £'000	2011 £'000
Present value of funded obligations	**29,700**	28,611
Fair value of employer assets	**(27,600)**	(27,194)
Net underfunding in funded plans	**2,100**	1,417
Present value of unfunded obligations	**100**	200
Deficit in the scheme	**2,200**	1,617
Related deferred tax asset (note 15)	**(528)**	(421)
Net pension liability	**1,672**	1,196

An analysis of the amount charged to operating profit is as follows:

	2012 £'000	2011 £'000
Current service cost	**400**	954

	400	954

24. Pension commitments (continued)

An analysis of the amount credited to other financing cost is as follows:

	2012	2011
	£'000	£'000
Expected return on pension scheme assets	**2,200**	1,976
Interest on pension scheme liabilities	**(1,600)**	(2,025)
Net return	**600**	(49)

An analysis of the amount which has been recognised in the statement of total recognised gains and losses (STRGL) is as follows:

	2012	2011
	£'000	£'000
Actuarial (loss)/gain recognised in STRGL	**(2,049)**	8,005

An analysis of the movement in scheme during the year is as follows:

	2012	2011
	£'000	£'000
Deficit in scheme at beginning of year	**(1,617)**	(9,381)
Current service cost	**(400)**	(954)
Employer contributions	**1,266**	762
Net return on assets	**600**	(49)
Actuarial (loss)/gain /	**(2,049)**	8,005
Deficit in scheme at end of the year	**(2,200)**	(1,617)

A history of experience gains and losses at 31 March 2012 is as follows:

	2012	2011	2010
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets	**(2,760)**	(3,061)	6,613
Value of assets	**27,600**	27,194	27,321
Percentage of scheme assets	**10%**	11.3%	24.2%
Experience gains/(losses) on scheme liabilities	**-**	1	1
Total present value of liabilities (funded)	**29,600**	28,611	36,702
Percentage of present value of scheme liabilities	**0.0%**	0.0%	0.0%
Actuarial (losses)/gains recognised in STRGL	**(2,049)**	8,005	(4,597)
Total present value of liabilities (funded)	**29,600**	28,611	36,702
Percentage of present value of scheme liabilities	**6.9%**	28.0%	12.5%

24. Pension commitments (continued)

The Expected Return on Assets is the sum of the yield on a cash return and a risk premium and is assessed by our Actuaries. Life expectancy is based on the PFA92 and PMA92 tables, projected to calendar year 2033 for non pensioners and 2017 for pensioners.

The fund allocation of the assets of the scheme is as follows:

	2012 £'000	**% of total assets**	2011 £'000	% of total assets
Equities	**20,300**	**73%**	20,565	75%
Property	**1,600**	**6%**	1,522	6%
Corporate and Government Bonds	**4,900**	**18%**	4,379	16%
Other assets	**800**	**3%**	728	3%
Fair value of assets	**27,600**		27,194	

The actual return on scheme assets in the year was a loss of £560,000 *(2011: £1,085,000).*

History of plans

The history of the plans for the current and prior years is as follows:

Balance sheet

Expected volatility	**2012 £'000**	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Present value of scheme liabilities	**(29,800)**	(28,811)	(36,702)	(23,500)	(23,519)
Fair value of scheme assets	**27,600**	27,194	27,321	18,546	23,866
Reimbursement asset	**-**	-	-	2,422	2,422
(Deficit)/ surplus in the scheme	**(2,200)**	(1,617)	(9,381)	(2,532)	2,769
Experience (losses)/gains on assets	**(2,760)**	(3,061)	6,613	(7,444)	(1,701)
Experience gains/(losses) on liabilities	**-**	1	1	(1)	(615)

The company expects to contribute approximately £1,285,000 to its defined benefit plans in the next financial year.

25. Ultimate parent undertaking

During the year the company's immediate parent undertaking was Babcock Education and Skills Limited, a company registered in England Wales. On 8 August 2012 the company was acquired by Babcock Education Holdings Limited as part of a re-organisation of the Babcock group corporate structure, and this company (also registered in England and Wales) became the company's immediate parent undertaking from that date.

The company's ultimate parent company 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