7

Babcock 4S Limited

Annual report and financial statements

For the year ended 31 March 2014

Company registration number:

04889149

The directors present their strategic report for the year ended 31 March 2014.

Review of the Business

Key performance indicators:

	2014	2013
	£'000	£'000
Turnover	**24,005**	27,830
Operating profit	**2,799**	2,708

The company successfully completed its tenth year of operation. The completion of the Lewisham school rollouts in the prior year has led to a decline in turnover. Close resource and cost monitoring has ensured that profits have been maintained.

Going forward, the company faces a number of operational risks in delivering its main contracts and increased competition from its competitors. The company has invested in new growth opportunities in order to maintain current market share and expand into new markets.

All the major contracts are subject to performance measurement via the use of a large number of key performance indicators and regular meetings are held with our stakeholders to manage this process.

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 company's operational review process which is supplemented by independent challenge at both Divisional and Group levels and 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 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 64 to 71 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. Babcock Group 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 on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

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

Interest rate cash flow risk
The company has 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.

Future developments and strategy

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.

To generate and preserve value in the longer term the company is committed to developing its people and sustaining talent. As part of the Babcock Group employees are subject to a comprehensive talent management system co-ordinated across the Group.

Environment

As part of the Babcock Group the company complies with Group policies on managing environmental impact. All of the company's operations have environmental management systems that are ISO 14001 certified. Babcock Group has achieved re-certification to the prestigious Carbon Trust Standard for all its UK operations, which include the operations of the company, and continues to work hard to reduce its carbon footprint.

We believe that all our employees and others working on or visiting our operations should be able to return home safe and well at the end of the working day. Respecting the dignity, rights and safety of the company's employees is a key principal of the Babcock Code of Business Conduct, a Group-wide policy that is applicable to all those who work with or within the company.

The company follows Group-wide guidelines setting out our approach to charitable donations, our commitment to the communities in which we operate and the broader interests of our customers. As well as ensuring financial donations are appropriately targeted, they also encourage active engagement in local community support programmes.

By order of the Board 19 September 2014

J McGrath
Director

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2014.

Principal activities

The principal activities of the company are the provision of school support services and the generation of income from other related services.

Results and dividends

The company's results for the year are set out in the profit and loss account on page 9 showing a profit for the financial year after taxation of £2,979,000 *(2013: £2,659,000)*. At 31 March 2014 the company had net assets £5,450,000 *(2013: £2,326,000)*.

A final dividend of £1,578,000 has been proposed for the year ended March 2014. *(2013: Final dividend paid of £1,392,000 within the current year).*

Review of Business

Information on the review of business can be found in the Strategic report.

Principal risks and uncertainties

Information on the principal risks and uncertainties can be found in the Strategic report.

Financial risk management

Information on the financial risk management can be found in the Strategic report.

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:

AS Lewis	(resigned 04 March 2014)
D Olney	(appointed 04 March 2014
SE Kemp	
J McGrath	(appointed 04 March 2014)
M Liang	
KR Thomas	
S West	resigned 04 March 2014)

Employment of disabled persons

Full and fair consideration is afforded to applications from suitably qualified disabled persons and to their subsequent career advancement within the company. If existing employees become disabled, opportunities are sought to re-train them so as to enable them to continue their current work or to undertake other work within the company which is suited to their aptitude and abilities.

Employee investment and involvement

The development of employee involvement in the company's business is kept under regular review and the directors are committed to encouraging greater involvement by all employees. Formal and informal briefing of employees takes place as appropriate.

The company also takes all reasonable steps to ensure employment conditions are equal in all respects for sex, race, colour, ethnic background, religion or disability.

Statement of directors' responsibilities

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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.

Directors' protection

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2014, 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.

Auditors and the disclosure of information

Each of the directors at the date of approval of this report, as shown on Page 4, confirm the following:

- so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- that they have taken all of 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 that 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 19 September 2014

J McGrath
Director

Report on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- give a true and fair view of the state of the company's affairs as at 31 March 2014 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.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have audited

The financial statements, which are prepared by Babcock 4S Limited, comprise:

- the balance sheet as at 31 March 2014;
- the profit and loss account and statement of total recognised gains and losses for the year then ended;
- the cash flow statement 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 their preparation is applicable law and United Kingdom Accounting Standards (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.

What an audit of financial statements involves

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

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

In addition, we read all the financial and non-financial information in the Annual report and financial statements (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.

7

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out 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 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.

Michael Coffin (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
22 September 2014

Profit and loss account

For the year ended 31 March 2014

	Notes	**2014 £'000**	2013 £'000
Turnover	2	**24,005**	27,830
Cost of sales		**(17,588)**	(21,494)
Gross profit		**6,417**	6,336
Administrative expenses		**(3,618)**	(3,628)
Operating profit		**2,799**	2,708
Interest receivable and similar income	3	**955**	857
Interest payable and similar charges	4	**-**	(10)
Profit on ordinary activities before taxation	5	**3,754**	3,555
Tax on profit on ordinary activities	8	**(775)**	(896)
Profit for the financial year	18	**2,979**	2,659

There is no difference between the profit on ordinary activities before taxation *(2013: profit)* and the profit for the financial year *(2013: profit)* stated above and their historical cost equivalents.

The above results all relate to continuing activities.

7

Statement of total recognised gains and losses

For the year ended 31 March 2014

	Notes	2014 £'000	2013 £'000
Profit for the financial year		**2,979**	2,659
Actuarial gain/(loss) recognised in the pension scheme	25	**1,996**	(2,448)
Movement on deferred tax relating to pension scheme	16	**(459)**	587
Total recognised gains relating to the financial year		**4,516**	798

Babcock 4S Limited

Company registration number: 04889149

Balance sheet as at 31 March 2014

	Notes	2014 £'000	2013 £'000
Fixed assets			
Intangible assets	10	-	-
Tangible assets	11	-	-
		-	-
Current assets			
Debtors	12	**3,957**	6,123
Stocks	13	**52**	60
Cash at bank and in hand	21	**12,713**	9,673
		16,722	15,856
Creditors – amounts falling due within one year	14	**(10,154)**	(9,829)
Net current assets		**6,568**	6,027
Total assets less current liabilities		**6,568**	6,027
Provisions for liabilities	15	**(1,464)**	(1,301)
Net assets before pension liability		**5,104**	4,726
Pension asset (liability)	25	**346**	(2,400)
Net assets after pension liability		**5,450**	2,326
Capital and reserves			
Called-up share capital	17	**1**	1
Share premium account	18	**1,999**	1,999
Profit and loss account	18	**3,450**	326
Total shareholders' funds	19	**5,450**	2,326

The financial statements on pages 9-30 were approved by the board of directors and signed on its behalf by:

J McGrath
Director
19 September 2014

Cash flow statement for the year ended 31 March 2014.

	Notes	**2014 £'000**	2013 £'000
Net cash inflow/(outflow) from operating activities	20	**4,376**	(3,956)
Returns on investment and servicing of finance			
Interest received		**56**	157
Interest paid		**-**	(10)
Taxation		**-**	-
Financing			
Intercompany loan repaid		**-**	10,000
Equity dividends paid		**(1,392)**	(2,628)
Increase in cash	21	**3,040**	3,563

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, or 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 where 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 of 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.

Stocks

Stocks are stated at the lower of cost and net realisable value. When stocks are sold and revenue is recognised, the carrying amount of those stocks is recognised as an expense.

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 activities of the company and arises solely within the United Kingdom.

3. Interest receivable and similar income

	2014	2013
	£'000	£'000
Bank interest	**56**	13
Net expected return on pension scheme assets (note 25)	**899**	700
Loan interest receivable from group undertaking	**-**	144
	955	857

4. Interest payable and similar charges

	2014	2013
	£'000	£'000
Bank interest	**-**	10
	-	10

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	2014	2013
	£'000	£'000
Depreciation – owned fixed assets	-	3
Auditors' remuneration		
- audit fees	**43**	32
Operating lease rentals		
- other	**735**	738

5. Profit on ordinary activities before taxation (continued)

No fees were paid to the company's auditors, Pricewaterhouse Coopers LLP, and its associates, for services other than statutory audit of the company.

6. Staff costs

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

	2014 Number	2013 Number
Operations	**200**	222
Administration and management	**31**	35
	231	257

Their aggregate remuneration comprised:

	2014 £'000	2013 £'000
Wages and salaries	**8,952**	10,240
Social security costs	**866**	986
Other pension costs	**824**	832
	10,642	12,058

7. Directors' remuneration

No directors received remuneration from the company in the current year *(2013: Nil)*.

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 from services provided to the company.

8. Tax on profit on ordinary activities

	2014 £'000	2013 £'000
Current tax		
UK Corporation tax on profits for the year	**581**	405
Current tax charge for the year	**581**	405
Deferred tax:		
Origination and reversal of timing differences	**282**	454
Adjustment in respect of prior years:	**(117)**	-
Impact of change in UK tax rate	**29**	37
Total deferred tax charge	**194**	491
Tax on profit on ordinary activities	**775**	896

Factors affecting the current year tax charge

The tax assessed for the year is lower *(2013: lower)* than the standard effective rate of corporation tax in the UK for the year ended 31 March 2014 of 23% *(2013: 24%)*. The differences are explained below:

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation	**3,754**	3,555
Tax on profit on ordinary activities at standard UK corporation tax rate of 23% *(2013: 24%)*	**863**	853
Effects of:		
Timing differences	**(282)**	(454)
Expenses not deductible for tax purposes	**-**	6
Current tax charge for the year	**581**	405

Factors affecting current and future tax charges

A number of changes to the UK Corporation tax system were announced in the March 2013 budget statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1st April 2014 is included in the Finance Act 2013. Further changes to the UK Corporation tax system were announced in the March 2013 budget statement. These included further reductions to the main corporation rate from 21% to 20% by 1st April 2015. These further changes have been substantively enacted at the balance sheet date and therefore the impact is included in these financial statements. As a result of the above all deferred tax balances are restated at 20% at the balance sheet date.

9. Dividends

	2014 £'000	2013 £'000
Interim dividends paid	**1,392**	2,628

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £1,217 and £2,098 per share respectively. See note 17 for further details.

10. Intangible fixed assets

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
Cost			
At 1 April 2013 and 31 March 2014	**700**	**298**	**998**
Accumulated amortisation			
At 1 April 2013 and 31 March 2014	**700**	**298**	**998**
Net book value			
At 31 March 2013 and 31 March 2014	-	-	-

11. Tangible fixed assets

	Leasehold improve-ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
Cost				
At 1 April 2013 and 31 March 2014	**866**	**1,168**	**526**	**2,560**
Accumulated Depreciation				
At 1 April 2013	866	1,168	526	2,560
Charge for the year	-	-	-	-
At 31 March 2014	**866**	**1,168**	**526**	**2,560**
Net book value				
At 31 March 2014	-	-	-	-
At 31 March 2013	-	-	-	-

12. Debtors

	2014 £'000	2013 £'000
Due within one year:		
Trade debtors	**625**	852
Amounts owed by group undertakings (note 24)	**1,303**	2,052
Amounts owed by other related parties (note 24)	**1,043**	1,587
Other debtors	**29**	359
Deferred tax (note 16)	**276**	128
Prepayments and accrued income	**681**	1,145
	3,957	6,123

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

13. Stocks

	2014 £'000	2013 £'000
Stocks	**52**	60

14. Creditors - amounts falling due within one year

	2014 £'000	2013 £'000
Trade creditors	**658**	30
Amounts owed to group undertakings (note 24)	**1,726**	801
Other creditors	**446**	447
Other taxation and social security	**815**	1,106
UK corporation tax payable	**1,498**	917
Accruals and deferred income	**5,011**	6,528
	10,154	9,829

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

15. Provisions for liabilities

	Contract Provisions £'000	Other Provisions £'000	Total £'000
At 1 April 2013	750	551	1,301
Charged to the profit and loss account	375	5	380
Utilised during the year	-	(217)	(217)
At 31 March 2014	**1,125**	**339**	**1,464**

Contract provisions
The closing balance represents a provision for redundancy costs which will crystalize on the expiry of the contracts.

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.

16. Deferred taxation

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

	2014 Provided £'000	2013 Provided £'000	**2014 Full potential £'000**	2013 Full potential £'000
Accelerated capital allowances	**46**	64	**46**	64
Other short term timing differences	**230**	64	**230**	64
	276	128	**276**	128

The movement on the deferred tax asset is as follows:

	Deferred tax on pension scheme (note 25) £'000	Other deferred tax £'000	Total £'000
At 1 April 2013	716	128	844
Charged to the profit and loss account (note 8)	(342)	148	(194)
Recognised in the statement of total recognised gains and losses	(459)	-	(459)
At 31 March 2014	**(85)**	**276**	**191**

17. Called-up share capital

	2014 £'000	2013 £'000
Allotted, issued and fully paid		
801 *(2013: 801)* "A" ordinary shares of £1 each	**1**	1
199 *(2013: 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.

18. Reserves

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 April 2013	1	1,999	326	2,326
Profit for the financial year	-	-	2,979	2,979
Dividends paid	-	-	(1,392)	(1,392)
Actuarial gain recognised in the pension scheme	-	-	1,996	1,996
Deferred tax arising on gain in the pension scheme	-	-	(459)	(459)
At 31 March 2014	**1**	**1,999**	**3,450**	**5,450**

Impact of pension scheme:

	2014 £'000	2013 £'000
Profit and loss reserve excluding pension liability	**1,913**	2,187
Pension liability movement	**1,537**	(1,861)
Profit and loss reserve including pension liability	**3,450**	326

19. Reconciliation of movements in shareholders' funds

	2014 £'000	2013 £'000
Profit for the financial year	**2,979**	2,659
Dividends paid	**(1,392)**	(2,628)
Actuarial gain/(loss) recognised on pension scheme (net of taxation)	**1,537**	(1,861)
Net increase/(decrease) in shareholders' funds	**3,124**	(1,830)
Opening shareholders' funds	**2,326**	4,156
Closing shareholders' funds	**5,450**	2,326

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

	2014 £'000	2013 £'000
Operating profit	**2,799**	2,708
Depreciation and amortisation	**-**	3
Decrease in debtors	**2,314**	241
Decrease/(increase) in stocks	**8**	(60)
(Decrease) in creditors	**(256)**	(4,869)
Increase/(decrease) in provisions	**163**	(1,147)
Difference between pension contributions paid and amount recognised in the profit and loss account	**(652)**	(832)
Net cash inflow from operating activities	**4,376**	(3,956)

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

	2014 £'000	2013 £'000
Increase in cash in year	**3,040**	3,563
Net funds at beginning of year	**9,673**	6,110
Net funds at end of year	**12,713**	9,673

22. Analysis of net funds

	At 1 April 2013 £'000	Cash flow £'000	At 31 March 2014 £'000
Cash at bank	9,673	3,040	**12,713**

23. Guarantees and financial commitments

a) Contingent liabilities and capital commitments

At the year end the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £620.8 million (*2013: £658.6 million*) provided to certain group companies. In addition, the company at the year end had joint and several liabilities for drawn bank overdraft facilities of other group companies of £nil (2013: £nil).

The company is a member of a wider Babcock VAT Group and as a result is jointly and severally liable with the other members for the VAT liability of the group. At 31 March 2014 the accrued VAT liability of the group was £1,403,712 (*2013: £2,086,827*).

As at 31 March 2014 the company had no contracted capital commitments *(2013: nil).*

b) Operating lease commitments

	2014 Land and buildings £'000	**2014 Other £'000**	2013 Land and buildings £'000	2013 Other £'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	**-**	**-**	-	-
- between two and five years	**568**	**155**	568	150
	568	**155**	568	150

24. 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 2014 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:

24. Related party disclosures (continued)

	2014 £'000	2013 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	27	44
Babcock Pension Trust Limited	25	-
Babcock Careers Management Limited	-	49
Babcock Civil Infrastructure Limited	23	-
Babcock Education and Skills Limited	24	13
Babcock Education and Skills (Training) Limited	20	-
Babcock Corporate Services Limited	396	689
Babcock International Group PLC	63	12
Babcock Learning and Development Partnership LLP	21	-
VT (UK) Limited	20	22
Surrey County Council	201	75
Babcock Infrastructure Services Limited	-	89
Babcock Training Limited	97	116

In addition to the transactions above, the company paid a fellow Babcock Subsidiary (Babcock Training Limited) £2,724,000 in respect of the companies 2013/14 VAT Liabilities. (2013: £3,474,000). This amount was paid to the Babcock Training Limited who settled the VAT liability on the companies' behalf.

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

	2014 £'000	2013 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	4	30
Surrey County Council	16,065	15,165
Babcock Civil Infrastructure Limited	10	-
Cavendish Nuclear	1	-
Babcock Education and Skills (Training) Limited	1,641	7,289
Babcock International Group PLC	-	6
Babcock Land Limited	4	2
Babcock Support Services Limited	105	81
Babcock Aerospace (Flag)	1	-
Babcock Learning & Development Partnership LLP	159	172
Guidance Services Limited	-	2
Babcock Careers Guidance (South) Limited (formerly Careers Enterprise Futures Limited)	-	1
VT Flagship Limited	4	24
Babcock Training Limited	280	244

24. Related party disclosures (continued)

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

	2014	2013
	£'000	£'000
Babcock Careers Management Limited	**-**	(61)
Babcock Corporate Services Limited	**(63)**	(715)
Babcock International Group Limited	**(53)**	(14)
Babcock Education and Skills Limited	**(24)**	-
Babcock Infrastructure Services Limited	**-**	-
VT (UK) Limited	**(3)**	(7)
Babcock Careers Guidance Limited	-	(4)
Babcock Training Limited	**(1,583)**	-

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

	2014	2013
	£'000	£'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	**7**	-
Cavendish Nuclear	**1**	-
Babcock Civil Infrastructure Limited	**1**	-
Babcock Careers Management Limited	**61**	-
Babcock Support Services Limited	**20**	23
Babcock Learning & Development Partnership LLP	**158**	120
Babcock Land Limited	**2**	-
Babcock Skills Development & Training Limited	**4**	2
Babcock Education and Skills (Training) Limited	**1,048**	1,618
Babcock Training Limited	**-**	258
Surrey County Council	**1,043**	1,587
Babcock Lifeskills Limited	**-**	16
VT Flagship Limited	**1**	15

25. 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 £74,000 *(2013: £105,000)* and there was a creditor of £15,000 *(2013: £10,000)* in the balance sheet.

25. Pension commitments (continued)

Local Government Pension Scheme – Waltham Forest Pension Fund
The company did participate 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 £nil *(2013: £20,000)* and there was a creditor of £nil *(2013: £nil)* in the balance sheet. As at 30th September 2012 all final members of the scheme had exited the business.

Babcock Defined Contribution scheme (formerly Shipbuilding Industries Pension Scheme)
The company also participates in the Babcock Defined Contribution scheme, which was formerly known as the Shipbuilding Industries Pension Scheme (SIPS). The pension cost charge for the year includes contributions made by the company to that fund amounting to £285,000 *(2013: £289,000)* and there was a creditor of £nil *(2013: £25,000)* in the balance sheet.

Group wide pension schemes
The company, as at 1 April 2008, became a member of two pension schemes providing benefits based on final pensionable pay. These schemes were subsequently merged 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. The pension charge for the year was £28,000 *(2013: £nil)* and there was a creditor of £3,000 *(2013: £2,000)* in the balance sheet.

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 2013 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.

25. Pension commitments (continued)

The latest LGPS scheme valuations have been updated by the actuaries on an FRS 17 basis as at 31 March 2013.

The movement in the defined benefit obligation over the year is as follows:

	2014 **£'000**	2013 £'000
Opening present value of the funded defined benefit obligations	**35,295**	29,700
Current service cost	**437**	418
Interest cost	**1,551**	1,400
Employee contributions	**219**	235
Actuarial (gain)/loss on assumptions	**(1,931)**	4,333
Benefits paid	**(811)**	(791)
Closing present value of the defined benefit obligation	**34,760**	35,295

The movement in the fair value of funded plan assets of the year is as follows:

	2014 **£'000**	2013 £'000
Opening fair value of assets	**32,325**	27,600
Expected return on assets	**2,450**	2,100
Actuarial gains/(losses)	**55**	1,931
Employer contributions	**1,089**	1,250
Employee contributions	**219**	235
Benefits paid	**(811)**	(791)
Closing fair value of assets	**35,327**	32,325

The major assumptions used in these valuations were:

	2014	2013
Rate of increase in salaries	**2.40%**	2.60%
Rate of increase in pension payments	**2.23%**	2.41%
Discount rate	**4.50%**	4.40%
Inflation assumption	**2.10%**	2.30%
Long term return on equities	**8.40%**	8.40%
Long term return on corporate bonds	**4.50%**	4.34%
Life expectancy from age 65 (male aged 65)	**21.90 years**	21.90 years
Life expectancy from age 65 (male aged 45)	**23.90 years**	23.90 years

7

25. Pension commitments (continued)

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Present value of funded obligations	**34,760**	35,295	29,700	28,611	36,484
Fair value of employer assets	**(35,327)**	(32,325)	(27,600)	(27,194)	(27,321)
Net underfunding in funded plans	**(567)**	2,970	2,100	1,417	9,163
Present value of unfunded obligations	**136**	146	100	200	218
(Gain)/Deficit in the scheme	**(431)**	3,116	2,200	1,617	9,381
Related deferred tax asset (note 16)	**85**	(716)	(528)	(421)	(2,627)
Net pension (asset)/liability	**(346)**	2,400	1,672	1,196	6,754

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

	2014 £'000	2013 £'000
Current service cost	**437**	418
	437	418

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

	2014 £'000	2013 £'000
Expected return on pension scheme assets	**2,450**	2,100
Interest on pension scheme liabilities	**(1,551)**	(1,400)
Net return	**899**	700

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

	2014 £'000	2013 £'000
Actuarial gain/(loss) recognised in STRGL	**1,996**	(2,448)

25. Pension commitments (continued)

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

	2014 £'000	2013 £'000
Deficit in scheme at beginning of year	**(3,116)**	(2,200)
Current service cost	**(437)**	(418)
Employer contributions	**1,089**	1,250
Net return on assets	**899**	700
Actuarial gain/(loss) (funded plans)	**1,986**	(2,402)
Actuarial gain/(loss) (unfunded obligations)	**10**	(46)
Gain/(Deficit) in scheme at end of the year	**431**	(3,116)

A history of experience gains and losses at 31 March 2014 is as follows:

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Difference between the expected and actual return on scheme assets	**55**	1,931	(2,760)	(3,061)	6,613
Value of assets	**35,327**	32,325	27,600	27,194	27,321
Percentage of scheme assets	**0%**	6%	-10%	-11.3%	24.2%
Experience gains on scheme liabilities	**-**	-	-	1	1
Total present value of liabilities (funded)	**34,760**	35,295	29,600	28,611	36,702
Percentage of present value of scheme liabilities	**0.0%**	0.0%	0.0%	0.0%	0.0%
Actuarial gains/(losses) recognised in STRGL	**1,996**	(2,448)	(2,049)	8,005	(4,597)
Total present value of liabilities (funded)	**34,760**	35,295	29,600	28,611	36,702
Percentage of present value of scheme liabilities	**6%**	7%	7%	28.0%	12.5%

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:

	2014 £'000	% of total assets	2013 £'000	% of total assets
Equities	**27,072**	**77%**	23,804	74%
Property	**2,015**	**6%**	1,843	5%
Corporate and Government Bonds	**5,726**	**16%**	5,760	18%
Other assets	**514**	**1%**	918	3%
Fair value of assets	**35,327**		32,325	

25. Pension commitments (continued)

The actual return on scheme assets in the year was a gain of £2,505,000. *(2013: £4,031,000).*

History of plans

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

Balance sheet

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Present value of scheme liabilities	**(35,758)**	(35,441)	(29,800)	(28,811)	(36,702)
Fair value of scheme assets	**35,327**	32,325	27,600	27,194	27,321
Surplus/(deficit) in the scheme	**431**	(3,116)	(2,200)	(1,617)	(9,381)
Experience gains/(losses) on assets	**1,996**	(2,448)	(2,760)	(3,061)	6,613
Experience gains/(losses) on liabilities	**-**	-	-	1	1

The company expects to contribute approximately £1,250,000 to its defined benefit plans in the next financial year.

26. Ultimate parent undertaking

Until 8 August 2012, the company's immediate parent undertaking was Babcock Education and Skills Limited, a company registered in England and 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