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**Babcock 4S Limited**

**Annual report and financial statements**

**For the year ended 31 March 2013**

**Company registration number:**

**04889149**

The directors present the annual report and audited financial statements of the company, for the year ended 31 March 2013.

### 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 7 showing a profit for the financial year after taxation of £2,659,000 (2012: £2,366,000). At 31 March 2013 the company had net assets £2,326,000 (2012: £4,156,000).

Two interim dividends were paid in the current year of £763,000 & £1,865,000 and the directors do not recommend a final dividend (2012: interim dividend paid of £nil).

### Business review

	2013 £'000	2012 £'000
Turnover	27,830	34,110
Operating profit	2,708	3,006

The company successfully completed its ninth year of operation. The ending of the Surrey Connexions and Waltham Forest contracts has led to a decline in turnover and profit.

During the year the company has invested in its school improvement proposition and is working with Surrey County Council to achieve its objective of making every school a good school as defined by Ofsted by 2017.

Going forward, the company faces a number of operational risks in delivering its main contracts and increased competition from its competitors. 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.

### 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 (Babcock Group), which includes the company, is discussed in the Group's annual 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 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 36 to 55 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.

### 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	(appointed 26 April 2012)
AP Khan	(resigned 26 April 2012)
SE Kemp	(appointed 23 January 2013)
JA Fisher	(resigned 23 January 2013)
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 2013, 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 (2012: £nil) to charitable or political organisations.

### 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.

### Creditor 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 44 days (2012: 48 days).



### 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.

### Auditors and the disclosure of information

Each of the directors at the date of approval of this report, as shown on Page 3, 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
- he has taken all the steps that he ought to have taken as a director in order to make himself 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. *21* August 2013.



S West  
Director

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

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We have audited the financial statements of Babcock 4S Limited for the year ended 31 March 2013 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 4 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 2013 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 matters 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.

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

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**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

22 August 2013

	Notes	2013 £'000	2012 £'000
Turnover	2	27,830	34,110
Cost of sales		(21,494)	(27,058)
Gross profit		6,336	7,052
Administrative expenses		(3,628)	(4,046)
Operating profit		2,708	3,006
Interest receivable and similar income	3	857	716
Interest payable and similar charges	4	(10)	-
Profit on ordinary activities before taxation	5	3,555	3,722
Tax on profit on ordinary activities	8	(896)	(1,356)
Profit for the financial year	18	2,659	2,366

There is no difference between the profit on ordinary activities before taxation (2012: *profit*) and the profit for the financial year (2012: *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 2013

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	Notes	2013 £'000	2012 £'000
<b>Profit for the financial year</b>		<b>2,659</b>	2,366
Actuarial loss recognised in the pension scheme	25	(2,448)	(2,049)
Movement on deferred tax relating to pension scheme	16	<b>587</b>	532
<b>Total recognised gains relating to the financial year</b>		<b>798</b>	849

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	Notes	2013 £'000	2012 £'000
<b>Fixed assets</b>			
Intangible assets	10	-	-
Tangible assets	11	-	3
		-	3
<b>Current assets</b>			
Debtors	12	6,123	16,456
Stocks	13	60	-
Cash at bank and in hand	21	9,673	6,110
		15,856	22,566
<b>Creditors</b> – amounts falling due within one year	14	(9,829)	(14,293)
<b>Net current assets</b>		6,027	8,273
<b>Total assets less current liabilities</b>		6,027	8,276
Provisions for liabilities	15	(1,301)	(2,448)
<b>Net assets before pension liability</b>		4,726	5,828
<b>Pension liability</b>	25	(2,400)	(1,672)
<b>Net assets after pension liability</b>		2,326	4,156
<b>Capital and reserves</b>			
Called-up share capital	17	1	1
Share premium account	18	1,999	1,999
Profit and loss account	18	326	2,156
<b>Total shareholders' funds</b>	19	2,326	4,156

The financial statements on pages 7-29 were approved by the board of directors and signed on its behalf by:



S West  
Director  
21...August 2013.

## Cash flow statement

	<i>Notes</i>	<b>2013</b> £'000	2012 £'000
<b>Net cash (outflow)/inflow from operating activities</b>	20	<b>(3,956)</b>	5,173
<b>Returns on investment and servicing of finance</b>			
Interest received		157	80
Interest paid		(10)	
<b>Taxation</b>		-	(2,008)
<b>Capital expenditure and financial investment</b>			
Intercompany loan repaid/ (issued)		10,000	(10,000)
<b>Equity dividends paid</b>		<b>(2,628)</b>	-
<b>Increase/ (Decrease) in cash</b>	21	<b>3,563</b>	<b>(6,755)</b>

## 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**

	2013 £'000	2012 £'000
Bank interest	13	80
Net expected return on pension scheme assets (note 25)	700	600
Loan interest receivable from group undertaking	144	36
	857	716

**4. Interest payable and similar charges**

	2013 £'000	2012 £'000
Bank interest	10	-
	10	-

**5. Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging:

	2013 £'000	2012 £'000
Depreciation – owned fixed assets (note 11)	3	18
Auditors' remuneration		
- audit fees	32	28
Operating lease rentals		
- other	738	1,108

**5. Profit on ordinary activities before taxation (continued)**

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.

**6. Staff costs**

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

	2013 Number	2012 Number
Operations	222	335
Sales	-	1
Administration and management	35	45
	<b>257</b>	<b>381</b>

Their aggregate remuneration comprised:

	2013 £'000	2012 £'000
Wages and salaries	10,240	13,912
Social security costs	986	1,358
Other pension costs (note 25)	832	1,257
	<b>12,058</b>	<b>16,527</b>

**7. Directors' remuneration**

No directors received remuneration from the company in the current year (2012: 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 to services provided to the company.

In the current year, no directors were members of a defined benefit pension scheme (2012: nil).

**8. Tax on profit on ordinary activities**

	2013 £'000	2012 £'000
Current tax		
UK Corporation tax on profits for the year	405	512
Current tax charge for the year	405	512
Deferred tax:		
Origination and reversal of timing differences	454	463
Adjustment in respect of prior years:	-	319
Impact of change in UK tax rate	37	62
Total deferred tax charge	491	844
Tax on profit on ordinary activities	896	1,356

**Factors affecting the current year tax charge**

The tax assessed for the year is lower (2012: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2013 of 24% (2012: 26%). The differences are explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	3,555	3,722
Tax on profit on ordinary activities at standard UK corporation tax rate of 24% (2012: 26%)	853	967
Effects of:		
Timing differences	(454)	(463)
Expenses not deductible for tax purposes	6	8
Current tax charge for the year	405	512

**Factors affecting current and future tax charges**

On 26<sup>th</sup> March 2012 a reduction to 24% with effect from 1 April 2012 was substantively enacted via a resolution passed by parliament. Finance Act 2012 was substantively enacted on 3 July 2012 and reduced the main rate of corporation tax to 23% with effect from 1 April 2013. Closing deferred tax balances have therefore been valued at 23% (2012: 24%).

Recent budget statements included proposals for further reductions to 21% from 1 April 2014 and 20% from 1 April 2015. 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. The effects of the proposed changes are not considered material.



**9. Dividends**

	2013 £'000	2012 £'000
Interim dividends paid	2,628	-

There are two classes of ordinary shares. A shareholders and B shareholders were paid dividends of £2,297 and £3,962 per share respectively. See note 17 for further details.

**10. Intangible fixed assets**

	Purchased goodwill £'000	Other intangibles £'000	Total £'000
<b>Cost</b>			
At 1 April 2012 and 31 March 2013	700	298	998
<b>Accumulated amortisation</b>			
At 1 April 2012 and 31 March 2013	700	298	998
<b>Net book value</b>			
At 31 March 2012 and 31 March 2013	-	-	-

**11. Tangible fixed assets**

	Leasehold improve- ments £'000	Computer equipment £'000	Office equipment £'000	Total £'000
<b>Cost</b>				
At 1 April 2012 and 31 March 2013	866	1,168	526	2,560
<b>Accumulated Depreciation</b>				
At 1 April 2012	866	1,168	523	2,557
Charge for the year	-	-	3	3
At 31 March 2013	866	1,168	526	2,560
<b>Net book value</b>				
At 31 March 2013	-	-	-	-
At 31 March 2012	-	-	3	3

**12. Debtors**

	2013 £'000	2012 £'000
Due within one year:		
Trade debtors	852	660
Amounts owed by group undertakings (note 24)	2,052	12,260
Amounts owed by other related parties (note 24)	1,587	1,268
Other debtors	359	111
Deferred tax (note 16)	128	220
Prepayments and accrued income	1,145	1,937
	<b>6,123</b>	<b>16,456</b>

During the year the amounts owed by group undertakings significantly reduced due to the repayment of the short term loan of £10,000,000. (2012: £10,000,000). The remaining amounts owed by group undertakings are unsecured, interest free and repayable on demand.

**13. Stocks**

	2013 £'000	2012 £'000
Stocks	60	-

**14. Creditors - amounts falling due within one year**

	2013 £'000	2012 £'000
Trade creditors	30	742
Amounts owed to group undertakings (note 24)	801	3,849
Other creditors	447	335
Other taxation and social security	1,106	1,334
UK corporation tax payable	917	512
Accruals and deferred income	6,528	7,521
	<b>9,829</b>	<b>14,293</b>

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 2012	1,961	487	2,448
Charged to the profit and loss account	375	64	439
Utilised during the year	(1,586)	-	(1,586)
<b>At 31 March 2013</b>	<b>750</b>	<b>551</b>	<b>1,301</b>

*Contract provisions*

The majority of the brought forward balance was utilised during the year towards the Waltham Forest redundancy payments. The closing balance represents a provision for redundancy costs on contracts which are coming to an end and are expected to be settled within two to three years.

*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:

	2013 Provided £'000	2012 Provided £'000	2013 Full potential £'000	2012 Full potential £'000
Accelerated capital allowances	64	81	64	81
Other short term timing differences	64	139	64	139
	<b>128</b>	220	<b>128</b>	220

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 2012	528	220	748
Charged to the profit and loss account (note 8)	(399)	(92)	(491)
Recognised in the statement of total recognised gains and losses	587	-	587
<b>At 31 March 2013</b>	<b>716</b>	<b>128</b>	<b>844</b>

**17. Called-up share capital**

	2013 £'000	2012 £'000
<b>Allotted, issued and fully paid</b>		
801 (2012: 801) "A" ordinary shares of £1 each	1	1
199 (2012: 199) "B" ordinary shares of £1 each	-	-
	<u>1</u>	<u>1</u>

*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 2012	1	1,999	2,156	4,156
Profit for the financial year	-	-	2,659	2,659
Dividends paid	-	-	(2,628)	(2,628)
Actuarial loss recognised in the pension scheme	-	-	(2,448)	(2,448)
Deferred tax arising on loss in the pension scheme	-	-	587	587
<b>At 31 March 2013</b>	<u>1</u>	<u>1,999</u>	<u>326</u>	<u>2,326</u>

Impact of pension scheme:

	2013 £'000	2012 £'000
Profit and loss reserve excluding pension liability	2,187	3,828
Pension liability movement	(1,861)	(1,672)
Profit and loss reserve including pension liability	<u>326</u>	<u>2,156</u>



**19. Reconciliation of movements in shareholders' funds**

	2013 £'000	2012 £'000
Profit for the financial year	2,659	2,366
Dividends paid	(2,628)	-
Actuarial (loss)/gain recognised on pension scheme (net of taxation)	(1,861)	(1,517)
Net (decrease)/increase in shareholders' funds	(1,830)	849
Opening shareholders' funds	4,156	3,307
Closing shareholders' funds	2,326	4,156

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

	2013 £'000	2012 £'000
Operating profit	2,708	3,006
Depreciation and amortisation	3	18
Decrease/(increase) in debtors	241	(363)
Increase in stocks	(60)	-
(Decrease)/increase in creditors	(4,869)	3,204
(Decrease)/increase in provisions	(1,147)	174
Difference between pension contributions paid and amount recognised in the profit and loss account	(832)	(866)
<b>Net cash inflow from operating activities</b>	<b>(3,956)</b>	<b>5,173</b>

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

	2013 £'000	2012 £'000
Increase/(decrease) in cash in year	3,563	(6,755)
Net funds at beginning of year	6,110	12,865
<b>Net funds at end of year</b>	<b>9,673</b>	<b>6,110</b>

**22. Analysis of net funds**

	At 1 April 2012 £'000	Cash flow £'000	At 31 March 2013 £'000
Cash at bank	6,110	3,563	9,673

### 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 £658.6 million (2012: £731.8 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 (2012: £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 2013 the accrued VAT liability of the group was £2,086,827 (2012: £768,424)

As at 31 March 2013 the company had no contracted capital commitments (2012: nil).

#### b) Operating lease commitments

	<b>2013</b>		2012	
	<b>Land and</b>	<b>2013</b>	Land and	2012
	<b>buildings</b>	<b>Other</b>	buildings	Other
	<b>£'000</b>	<b>£'000</b>	£'000	£'000
Annual commitments under non-cancellable operating leases expiring as:				
- within one year	-	-	481	42
- between two and five years	<b>568</b>	<b>150</b>	-	123
	<b>568</b>	<b>150</b>	481	165

### 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 2013 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)**

	2013 £'000	2012 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	44	20
Surrey Careers Services Limited	-	51
Babcock Careers Management Limited	49	807
Babcock Communications Limited	-	66
Babcock Education and Skills Limited	13	36
Babcock Marine (Clyde) Limited	-	2
Babcock Corporate Services Limited	689	482
Babcock International Group PLC	12	3
Babcock Support Services Limited	-	2
VT (UK) Limited	22	2
Surrey County Council	75	828
Babcock Infrastructure Services Limited	89	25
Babcock Training Limited	116	917

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

	2013 £'000	2012 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	30	121
Surrey County Council	15,165	20,277
Babcock Careers Management Limited	-	7
Babcock Critical Services Limited	-	16
Babcock Education and Skills Limited	7,289	10,308
Babcock International Group PLC	6	55
Babcock Land Limited	2	3
Babcock Support Services Limited	81	43
Babcock West Sussex Careers Limited	-	1
Babcock Learning & Development Partnership LLP	172	-
Guidance Services Limited	2	3
Careers Enterprise Futures Limited	1	-
VT Flagship Limited	24	2
Babcock Training Limited	244	792

During the year, stock valued at £60,000 and a deferred income balance of (£76,000), were transferred from Babcock Lifeskills Limited, a fellow group company, at book value.

**24. Related party disclosures (continued)**

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

	2013 £'000	2012 £'000
Babcock Careers Management Limited	(61)	(53)
Babcock Corporate Services Limited	(715)	(386)
Babcock International Group Limited	(14)	-
Babcock Infrastructure Services Limited	-	(25)
VT (UK) Limited	(7)	-
Babcock Careers Guidance Limited	(4)	-
Babcock Training Limited	-	(3,385)

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

	2013 £'000	2012 £'000
Babcock Careers Guidance Limited (formerly Careers Enterprise Limited)	-	55
Guidance Services Limited	-	1
Babcock Critical Services Limited	-	3
Babcock International Group PLC	-	23
Babcock Support Services Limited	23	43
Babcock Learning & Development Partnership LLP	120	-
Babcock Land Limited	-	1
Babcock Skills Development & Training Limited	2	-
Babcock Education and Skills Limited	1,618	2,133
Babcock Training Limited	258	-
Surrey County Council	1,587	1,268
Babcock Lifeskills Limited	16	-
VT Flagship Limited	15	1

**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 £105,000 (2012: £234,000) and there was a creditor of £10,000 (2012: £26,000) 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 £20,000 (2012: £184,000) and there was a creditor of £nil (2012: £18,000) in the balance sheet. As at 30<sup>th</sup> 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 £289,000 (2012: £312,000) and there was a creditor of £25,000 (2012: £nil) 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 £nil (2012: £92,000) and there was a creditor of £nil (2012: £nil) 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 £nil (2012: £35,000) and there was a creditor of £2,000 (2012: £2,000) in the balance sheet.

### Babcock International Group ("BIG") Scheme

In the prior 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.

**25. 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 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.

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:

	2013 £'000	2012 £'000
Opening present value of the funded defined benefit obligations	29,700	28,611
Current service cost	418	400
Interest cost	1,400	1,600
Employee contributions	235	300
Actuarial (gain)/loss on assumptions	4,333	(611)
Benefits paid	(791)	(600)
Closing present value of the defined benefit obligation	<u>35,295</u>	<u>29,700</u>

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

	2013 £'000	2012 £'000
Opening fair value of assets	27,600	27,194
Expected return on assets	2,100	2,200
Actuarial gains/(losses)	1,931	(2,760)
Employer contributions	1,250	1,266
Employee contributions	235	300
Benefits paid	(791)	(600)
Closing fair value of assets	<u>32,325</u>	<u>27,600</u>

**25. Pension commitments (continued)**

The major assumptions used in these valuations were:

	2013	2012
Rate of increase in salaries	2.60%	2.45%
Rate of increase in pension payments	2.41%	2.15%
Discount rate	4.40%	4.85%
Inflation assumption	2.30%	2.15%
Long term return on equities	8.40%	8.40%
Long term return on corporate bonds	4.34%	4.85%
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

	2013 £'000	2012 £'000
Present value of funded obligations	35,295	29,700
Fair value of employer assets	(32,325)	(27,600)
Net underfunding in funded plans	2,970	2,100
Present value of unfunded obligations	146	100
Deficit in the scheme	3,116	2,200
Related deferred tax asset (note 16)	(716)	(528)
Net pension liability	2,400	1,672

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

	2013 £'000	2012 £'000
Current service cost	418	400
	418	400

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

	2013 £'000	2012 £'000
Expected return on pension scheme assets	2,100	2,200
Interest on pension scheme liabilities	(1,400)	(1,600)
Net return	700	600

**25. Pension commitments (continued)**

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Actuarial (loss)/gain recognised in STRGL	<b>(2,448)</b>	(2,049)

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

	<b>2013</b>	2012
	<b>£'000</b>	£'000
Deficit in scheme at beginning of year	<b>(2,200)</b>	(1,617)
Current service cost	<b>(418)</b>	(400)
Employer contributions	<b>1,250</b>	1,266
Net return on assets	<b>700</b>	600
Actuarial loss (funded plans)	<b>(2,402)</b>	(2,149)
Actuarial (loss)/gain (unfunded obligations)	<b>(46)</b>	100
Deficit in scheme at end of the year	<b>(3,116)</b>	(2,200)

A history of experience gains and losses at 31 March 2013 is as follows:

	<b>2013</b>	2012	2011
	<b>£'000</b>	£'000	£'000
Difference between the expected and actual return on scheme assets	<b>1,931</b>	(2,760)	(3,061)
Value of assets	<b>32,325</b>	27,600	27,194
Percentage of scheme assets	<b>6%</b>	-10%	-11%
Experience gains on scheme liabilities	-	-	1
Total present value of liabilities (funded)	<b>35,295</b>	29,600	28,611
Percentage of present value of scheme liabilities	<b>0.0%</b>	0.0%	0.0%
Actuarial (losses)/gains recognised in STRGL	<b>(2,448)</b>	(2,049)	8,005
Total present value of liabilities (funded)	<b>35,295</b>	29,600	28,611
Percentage of present value of scheme liabilities	<b>7%</b>	7%	-28%

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.



**25. Pension commitments (continued)**

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

	<b>2013</b> <b>£'000</b>	<b>% of total</b> <b>assets</b>	2012 £'000	% of total assets
Equities	<b>23,804</b>	<b>74%</b>	20,300	73%
Property	<b>1,843</b>	<b>5%</b>	1,600	6%
Corporate and Government Bonds	<b>5,760</b>	<b>18%</b>	4,900	18%
Other assets	<b>918</b>	<b>3%</b>	800	3%
Fair value of assets	<b>32,325</b>		27,600	

The actual return on scheme assets in the year was a gain of £4,031,000 (2012: £560,000).

History of plans

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

## Balance sheet

	<b>2013</b> <b>£'000</b>	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Present value of scheme liabilities	<b>(35,441)</b>	(29,800)	(28,811)	(36,702)	(23,500)
Fair value of scheme assets	<b>32,325</b>	27,600	27,194	27,321	18,546
Reimbursement asset	-	-	-	-	2,422
(Deficit)/ surplus in the scheme	<b>(3,116)</b>	(2,200)	(1,617)	(9,381)	(2,532)
Experience (losses)/gains on assets	<b>(2,448)</b>	(2,760)	(3,061)	6,613	(7,444)
Experience gains/(losses) on liabilities	-	-	1	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:

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