



SSRO

Single Source
Regulations Office

Assuring value, building confidence

Single source baseline profit and capital servicing rates methodology

January 2016

(additional information added March 2016)

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Methodology

1. Introduction

- 1.1 Under the Defence Reform Act 2014 (the Act), the Single Source Regulations Office (SSRO) is required annually to review the figures used to determine the contract profit rate for pricing qualifying defence contracts (QDCs) and qualifying subcontracts (QSCs). Section 19(2) of the Defence Reform Act 2014 requires that, for each financial year, the SSRO must provide the Secretary of State with its assessment of the appropriate baseline profit rate and capital servicing rates.
- 1.2 Under the previous 'Yellow Book' regime, the baseline profit rate and capital servicing rates were calculated by the Review Board for Government Contracts (the Review Board), an advisory non departmental public board sponsored by the Ministry of Defence (MOD). The Review Board developed these rates for the final time for the 2015/16 financial year.
- 1.3 In recommending the 2015/16 baseline profit rate and capital servicing rates, the SSRO carried out due diligence on the work undertaken by the Review Board. During this review the SSRO signalled its intent to develop a new approach to calculating the baseline profit rate in future.
- 1.4 As the independent regulator, the SSRO has determined its methodology for calculating the profit rate following statutory guidance from the Secretary of State to maintain a single baseline profit rate for 2016/17.
- 1.5 This paper sets out the SSRO's methodology which will be used to determine the baseline profit rate and capital servicing rates for recommendation to the Secretary of State in January this year.
- 1.6 The SSRO's revised 'Contract Profit Rate Guidance' provides details on the adjustments to the baseline profit rate.

2. Baseline profit rate

- 2.1 The Secretary of State issued an instruction on 20 January 2016 that the methodology used to calculate profit rates for UK single source contracts should be such that it results in setting a single baseline profit rate in 2016/17. Accordingly, the SSRO is recommending one baseline profit rate which will be the composite rate for 'develop and make' and 'provide and maintain' as the combination of these two categories is the best comparator given there is no single group of comparable companies that covers all aspects of work done under single source contracts.
- 2.2 Previously, profit rates were set from 1968 until 2015 using the principle that contractors should earn a return comparable to the average of British industry. However, the range of companies included in the past comparisons was too broad. Companies carrying out completely different work to that in the defence sector were included in calculations to set profit levels, for example in the retail, pharmaceuticals, tobacco and food and drink sectors.
- 2.3 The SSRO's 'develop and make' and 'provide and maintain' activity types incorporate a range of activities relating to the design, development, manufacture, servicing and capacity provision of equipment and services.

3. Approach

- 3.1 This section summarises the approach taken in the SSRO's methodology for calculating the baseline profit rate and capital servicing rates.
- 3.2 The methodology is used to calculate two profit rates for 'develop and make' and 'provide and maintain', from which a composite rate is calculated and which we will recommend to the Secretary of State as a single baseline profit rate.
- 3.3 In overview, the methodology identifies comparable companies tailored to the activities, including assets and contract risks, involved in QDCs and QSCs. These companies form the comparator reference groups. The profit range for each set of comparable companies is then used to determine the baseline profit rate. This is achieved by:
- identifying characteristics of activities typically covered by QDCs and QSCs as set out in section 4;
 - determining appropriate and robust comparable company financial data using a third party company database as set out in section 4;
 - reviewing this comparable data in the context of contract types seen by the SSRO and the activities of the comparable companies using the process in section 4; and
 - calculating a profit rate for each of 'develop and make' and 'provide and maintain', and then calculating a composite rate, and using this as the baseline profit rate as set out in section 5.
- 3.3 The SSRO will calculate and recommend capital servicing rates to the Secretary of State following a similar methodology to that used in the previous 'Yellow Book' regime. These include rates for fixed capital, positive working capital and negative working capital.
- 3.4 The methodology for calculating capital servicing rates is set out in section 6.

4. Determining appropriate comparable data

Data sources

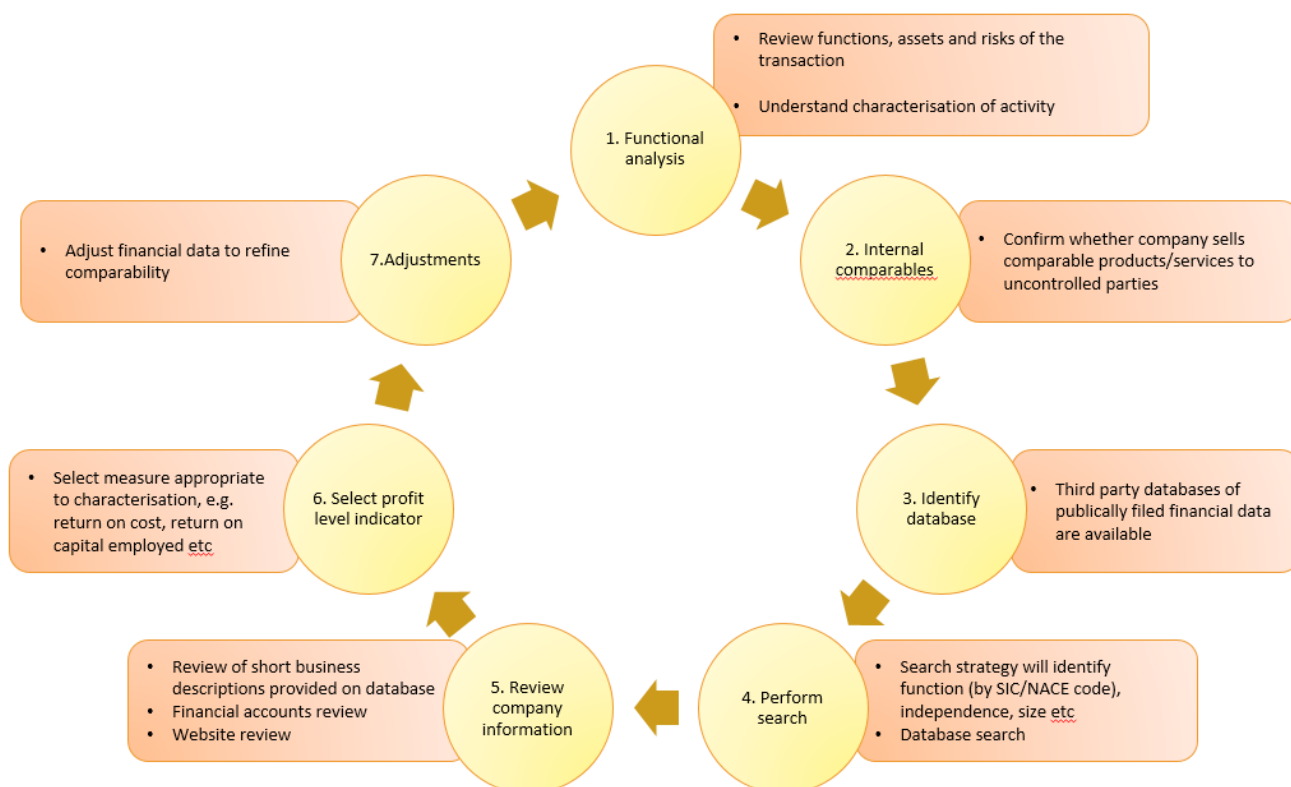
- 4.1 An analysis of comparable companies is performed to identify and gather the data required to determine the profit rate for the two activity characterisations that are being combined to provide a single baseline profit rate as required by the Secretary of State.
- 4.2 Publicly filed company financial results compiled in a database are used for this analysis. For example the ORBIS database provided by Bureau van Dijk is a comprehensive global database containing financial information on approximately 100 million public and private companies. The data is scrutinised for quality assurance purposes and financial data is supplemented where necessary by other publicly available information.

- 4.3 Additional publicly available data is also reviewed, including information from company accounts, websites and trade descriptions.

Comparable company search process

- 4.4 The comparable search process follows transfer pricing principles and the best practice approach set out by the OECD and supported by HMRC. This is summarised below in Figure 1.
- 4.5 In order to conduct an analysis of comparable company data, the SSRO considered the nature of the functions, assets and risks involved in QDCs and QSCs to determine the appropriate activity characterisations (stage 1 of Figure 1). Descriptions of the activities a company is typically expected to undertake to be considered as a comparable company were developed (see Appendix A).

Figure 1: Best practice approach to transfer pricing



4.6 The comparable company review process is divided into two phases, shown in stages 4 and 5 of Figure 1.

4.7 The first phase (stage 4 of Figure 1) is the initial data review. This applies tailored search criteria to a database of company information.

4.8 The second phase (stage 5 of Figure 1) is a detailed data review of the potential comparable companies identified in the first phase. This includes a review of business descriptions provided in the financial database, together with a review of company accounts and company website information.

Initial data review – search criteria

4.9 The search criteria used to perform comparable company searches are set out below.

Financial data

4.10 Comparable companies are identified by applying the following search criteria over a period of five years of data. The use of multiple year data is permitted for comparable searches, as per the OECD guidelines.

4.11 When calculating the two profit rates in order to combine into a single baseline profit rate, the SSRO uses the most recent year's data from the comparable companies identified in the search.

4.12 The most recent year of available data is for the previous calendar year or full financial year. For example when calculating the rates during 2015, data from the 2014 calendar year or for the 2014/2015 financial year is used, due to a time lag between company year ends and accounts filing dates. This is consistent with the approach adopted by the 'Yellow Book'.

Active companies

4.13 Only active trading companies are included in the search.

Legal form

4.14 The search includes private limited companies (for example Ltd, Gmbh, SARL, SRL, BV and AS) and public companies (for example PLC, SA and NV).

4.15 Limited Liability Partnerships and partnerships are not included due to the potentially incomparable nature of their base costs (for example payments to partners are recorded and reported as drawings not salaries).

Independence

4.16 The SSRO includes only those companies that are independent and transact solely with third parties rather than related entities.

4.17 Companies are only included in the search if they are classified as "A independent" (where no person could have a shareholding of >25 per cent) or "B independent" (where no person could have a shareholding of >50 per cent).

Region

4.18 Western European¹ and North American² companies are included in the search. A company's region is determined by its place of incorporation (where the company is established and formally registered). A company's place of incorporation is typically, but not always, the location of its headquarters and management function.

¹ Western Europe is defined as the UK, Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland, Denmark, Finland, Greece, Iceland, Ireland, Italy, Malta, Norway, Portugal, Spain and Sweden.

² North America is defined as the USA and Canada.

Turnover

- 4.19 A minimum turnover of £5,000,000 (approximately €6,000,000 or \$7,500,000) for at least one of the selected years under consideration is specified to eliminate companies of a non-comparable size. The SSRO excludes companies with a turnover of less than £5,000,000 in a given calculation year.

Profit

- 4.20 Companies are selected where they report a profit in at least one of the selected years in order to avoid going concern issues. The SSRO excludes companies which make a loss in a given calculation year.

Function

- 4.21 Searches use NACE Rev 2 industry codes and relevant search terms in the short business description contained in the database to target comparable functions. NACE Rev 2 codes are used as they classify economic activities in the European Community and financial databases can also map these to North American industry codes. A company may have more than one NACE code and the database draws on all codes attributed to a company.

- 4.22 Tables B1 to B2 in Appendix B present the industry codes and text search terms used in the search strategy for the activity types of 'develop and make' and 'provide and maintain'.

Geographical considerations

- 4.23 Separate search strategies are prepared for North America and Western Europe although the same criteria are applied to both. Given that financial information is only available publicly for significantly large companies in North America, the database holds less company data for North America compared to

the company data held for Western Europe. As such, North American company samples are typically smaller than Western European samples.

Detailed data review – search criteria

- 4.24 Once an initial sample of potentially comparable companies is identified, they are reviewed in detail to confirm that they are appropriate comparable companies.

- The short business description for each company provided by the financial database is reviewed.
- The company accounts are reviewed, where these are available, to provide greater detail about factors such as the primary sources of income and geographic footprint.
- Company websites are reviewed to provide more detail regarding the nature and location of each business' activities.

- 4.25 Key considerations in this stage of the review include:

- Whether the business model is comparable to the tested activity characterisation.
- Whether the tested activity characterisations are the principal activities of the identified companies. Companies may not exclusively perform a particular function, but to be accepted as a comparable company the selected characterisation needs to be a principal activity.
- Whether the activities of a business take place in comparable locations. For example, a UK business which earns the majority of its income and profit from work in the Far East, where pricing and cost are at different levels to those seen in Western Europe is not considered to be comparable.

-
- 4.26 This review contains some subjective elements – for example what is a ‘principal level’ of activity. Every effort is made to assess these consistently, using financial indicators where possible.
- 4.27 The outcome of the comparables search is a set of comparable companies from which financial indicators are identified.

5. Calculating the baseline profit rate

5.1 To determine the profit rate for 'develop and make' and 'provide and maintain', an appropriate profit level indicator (PLI) must be used. A profit level indicator refers to the margin or measure used relative to an appropriate base (for example costs, sales or assets) that is realised from a transaction.

5.2 The net cost plus margin (also known as return on total cost) is the PLI used by the SSRO and is calculated as:

$$\text{Net cost plus} = \frac{\text{Operating Profit}}{\text{Total Expenses}}$$

5.3 'Net cost plus', is the ratio of operating profit to total cost. The net cost plus margin is a measure of return on costs using the total operational expenses of the company. The ratio can allow for differences in functions by assuming that they are reflected in the level of total operating expenses, with many items able to be included in either cost of goods sold or other operating expenses.

5.4 The profit range for each set of comparable companies is used to determine the unadjusted underlying profit rate for the two activity characterisations. Only data for the most recent year is used. Only companies in a set which report both a profit and a minimum turnover of £5,000,000 in that most recent year are used to provide profit data.

5.5 The median value of the range of profit data is identified and used as an unadjusted underlying profit rate for each of the two activity characterisations.

5.6 The unadjusted underlying profit rate for each of the two activity types is then adjusted to remove capital servicing. Each comparable company's result is adjusted using the method set out in the guidance for the capital servicing adjustment calculation, and a revised median rate is calculated. This adjustment determines the underlying profit rates for 'develop and make' and 'provide and maintain'.

5.7 A three year rolling average is calculated to determine the profit rate for each of the two activity characterisations, using the underlying profit rate for each characterisation in the current year and the underlying baseline profit rates of the two immediately preceding years.

Composite 'develop and make' and 'provide and maintain' rate

5.8 The composite profit rate is calculated by taking a simple average of the two profit rates for the 'develop and make' activity type and the 'provide and maintain' activity type. This is the baseline profit rate the SSRO will recommend to the Secretary of State for 2016/17.

6. Calculating capital servicing rates

6.1 The SSRO calculates the following capital servicing rates for:

- fixed capital;
- positive working capital; and
- negative working capital.

6.2 These are calculated using a similar methodology utilised in the previous 'Yellow Book' regime, but this has been amended to use more appropriate corporate bonds in the calculations.

Fixed and positive working capital rates

6.3 The calculation of fixed and positive working capital servicing rates is based on corporate bond rates. A number of factors are assessed to determine the rates:

- a. Firstly, the credit ratings of the top defence suppliers to the MOD for 2014/15 were analysed to identify an appropriate credit rating. This was assessed as a BBB rating using December 2015 data and is believed to be the right proxy for credit ratings of contractors with QDCs.
- b. The interest rates achieved by sterling denominated debt at a BBB credit rating issued during the calendar year (2015 for rates calculated for 2016/17) are then analysed over two different time periods:
 - for fixed capital a 15 year bond rate is used with a seven year moving average; and
 - for positive working capital a one year bond rate is used, with a three year moving average.

6.4 The previous 'Yellow Book' methodology used data based on a BBB- credit rating. When calculating the rolling averages, data relating to a BBB- bond rate is used for previous years and data based on BBB bond rates is used for the 2016/17 rate onwards.

Negative working capital rate

6.5 The negative working capital rate is determined by using a three year rolling average of the Bank of England statistics on interest for short term deposits. Data to the year ending November 2015 is used in the calculation for the 2016/17 rate.

Appendix A – Comparable companies analysed

Table A1 – Characteristics of comparable companies analysed

Rate	Types of companies analysed
1. Develop and Make	<p>Companies typically undertaking both manufacturing activities and design and development activities.</p> <p>Manufacturing activities (i.e. not distribution or marketing activities) and the products manufactured would include vehicles or equipment typically used for military or defence purposes. This could cover a broad range of products (e.g. including structural metal products, tanks, containers, general machinery, ships, aircraft, military fighting vehicles, trucks).</p> <p>Scientific or technical research, design, development or testing activities typically include those relating to military equipment, vehicles, software or systems.</p>
2. Provide and Maintain	<p>Companies typically undertaking both upkeep and maintenance support services and capacity provision services. Companies undertake activities such as:</p> <ul style="list-style-type: none"> • repair and maintenance for vehicles, machinery or equipment; • servicing for vehicles, machinery or equipment; • provision of training services for vehicles, machinery or equipment; • installation of equipment; • providing availability contracts for vehicles, machinery or equipment where these assets are not owned by the contractor; or • renting and leasing out assets such as vehicles, trucks, tanks, containers, and other items of heavy machinery or means of transportation.

Appendix B – Industry codes and text search terms used in activity type search strategies

Table B1 – Industry codes (NACE Rev 2) and Text Search terms used in Develop and Make search strategy

Develop and Make	
NACE Rev 2 codes	2511 – Manufacture of metal structures
	2512 – Manufacture of doors and windows of metal
	2521 – Manufacture of central heating, radiators and boilers
	2529 – Manufacture of other tanks, reservoirs and containers
	2530 – Manufacture of steam generators
	2540 – Manufacture of weapons and ammunition
	2591 – Manufacture of steel drums and similar containers
	2592 – Manufacture of light metal packaging
	2593 – Manufacture of wire products, chains and springs
	2594 – Manufacture of fasteners and screw machine products
	2599 – Manufacture of other fabricated metal products
	2811 – Manufacture of engines and turbines, except aircraft, vehicle and cycle engines
	2812 – Manufacture of fluid power equipment
	2813 – Manufacture of other pumps and compressors
	2814 – Manufacture of other taps and valves
	2815 – Manufacture of bearings, gears, gearing and driving elements
	2821 – Manufacture of ovens, furnaces, furnace burners
	2822 – Manufacture of lifting and handling equipment
	2823 – Manufacture of office machinery and equipment
	2824 – Manufacture of power-driven hand tools
	2825 – Manufacture of non-domestic cooling and ventilation equipment
	2829 – Manufacture of other general purpose machinery
	2830 – Manufacture of agricultural and forestry machinery
	2841 – Manufacture of metal forming machinery
	2849 – Manufacture of other machine tools

Develop and Make	
NACE Rev 2 codes	2891 – Manufacture of machinery for mining, quarrying and construction
	2893 – Manufacture of machinery for food, beverages and tobacco processing
	2894 – Manufacture of machinery for textile apparel and leather production
	2896 – Manufacture of plastic and rubber machinery
	2899 – Manufacture of other special purpose machinery
	2910 – Manufacture of motor vehicles
	3011 – Building of ships and floating structures
	3012 – Building of pleasure and sporting boats
	3020 – Manufacture of railway locomotives and rolling stock
	3030 – Manufacture of air and spacecraft
	3040 – Manufacture of military fighting vehicles
	7211 - Research and experimental development on biotechnology
	7219 – Other research and experimental development on natural sciences and engineering
	7120 – Technical, testing and analysis
	7490 – Other professional, scientific and technical activities
	7410 – Specialised design activities
Text search:	(manuf* or produc* or fabric* or build*)
	(research* or develop* or design*) AND (test* or equip* or machin* or militar* or vehic*)

Table B2 – Industry codes (NACE Rev 2) and Text Search terms used in Provide and Maintain search strategy

Provide and Maintain	
NACE Rev 2 codes	3311 – Repair of fabricated metal products,
	3312 – Repair of machinery
	3313 – Repair of electronic and optical equipment
	3314 – Repair of electrical equipment
	3315 – Repair and maintenance of ships and boats
	3316- Repair and maintenance of aircraft and spacecraft
	3317 – Repair and maintenance of other transport equipment
	3319 – Repair of other equipment
	3320 – Installation of industrial machinery and equipment
	4520 – Maintenance and repair of motor vehicles
	7712 – Renting and leasing of trucks
	7734 – Renting and leasing of water transport equipment
	7735 – Renting and leasing of air transport equipment
	7739 – Renting and leasing of other machinery, equipment and tangible goods
Text search:	(repair* or maint* or upkeep* or updat* or train*) AND (equip*)
	(rent* or leas* or hir*) AND (truck* or tank* or trailer* or container* or machin* or equip* or industr* or aircraft*)

Appendix C – List of companies used in the 2016/17 baseline profit rate analysis

Comparable companies

1 Companies used to determine the 2016/17 profit rate for the ‘develop and make’ activity type

Table 1 presents the 271 companies that were used to determine the 2016/17 underlying profit rate for the ‘develop and make’ activity characterisation.

The following criteria were applied to extract potentially comparable companies from the financial database, in the initial data review. These criteria are company legal form, independence, whether companies were active, region (place of incorporation), turnover and profit. Specific NACE codes and text search terms were also applied to the data at this stage to extract companies with potentially comparable functions (see paragraphs 4.9 to 4.23). A detailed data review of this initial group was then undertaken and companies were excluded if examination of data and information about them showed they were not an appropriate comparator (see paragraphs 4.24 to 4.27). This review process resulted in 348 accepted comparator companies.

Companies were excluded if they did not meet the turnover and profit criteria in the most recent year (see section 5). Of the 348 companies that were identified, 271 met the turnover criteria and had positive capital servicing adjusted net cost plus rates in the most recent year (2014) for which financial data was available. These were therefore used to calculate the ‘develop and make’ activity type’s 2016/17 underlying profit rate.

Table 1

A.M.A. S.P.A.	ANSELM I & C. S.R.L.
AAR CORP	ARITCO GROUP AB
AB VOLVO	ARTEC PULVERISATION
ABSOLUTE S.P.A.	ATELIERS CONSTRUC MECANIQUE HONFLEUR
ACCURACY INTERNATIONAL LIMITED	ATLAS COPCO AB
ACTUANT CORP	ATREPAN S.R.L.
ADV WORKING S.P.A.	B - STEEL
AEROVIRONMENT, INC.	BABCOCK INTERNATIONAL GROUP PLC
AGECROFT PRISON MANAGEMENT LIMITED	BAE SYSTEMS PLC
AIMO KORTTEEN KONEPAJA OY	BAILEY TRAILERS LIMITED
AIRBUS GROUP SE	BAURAL
ALFREDO CECCHINI SOCIETA A RESPONSABILITA LIMITATA	BBA AVIATION PLC
ALSTOM S.A.	BEHA-HEDO INDUSTRIER AS
ALUMASC GROUP PLC (THE)	BELIMO HOLDING AG
ANGELO CREMONA SPA	BERALMAR TECNOLOGIC SA

BERETTA ALFREDO S.R.L.	COLT INVESTMENTS LIMITED
BERGI S.P.A.	COLUMBUS MCKINNON CORP
BETA MARINE LIMITED	CONFORMADOS METALICOS DE GALICIA SA
BINACCHI E C. S.R.L.	CORMACH S.R.L.
BITTIUM OYJ	D CLOOSTERMANS - HUWAERT
BORGSTENA GROUP SWEDEN AB	DAIMLER AG
BRAGLIA S.R.L.	DALLAN S.P.A.
BRD. KLEE A/S	DANCO S.P.A.
BREEZE-EASTERN CORPORATION	DANFOSS A/S
BRIGGS & STRATTON CORP	DATA RESPONS ASA
BSN THERMPROZESSTECHNIK GMBH	DATRON AG
BULTEN AB	DEL MORINO - S.R.L.
C.A.M.P.I. - S.R.L.	DIGITAL FLEX S.R.L.
C.M.A. S.P.A.	DKSH HOLDING AG
C.M.F. S.R.L.	DOM SRL
C.MATIC S.R.L.	DUGOMRULLI - SOCIETA A RESPONSABILITA LIMITATA
C.S.C. - S.P.A.	ELIMCO SOLUCIONES INTEGRALES SA
CAPELLO S.R.L.	EMPTEEZY LIMITED
CARAVAGGI S.R.L.	ENERGY TECHNIQUE PLC.
CARPENTERIA MANESSI S.R.L.	EURO STAMPI S.R.L.
CASTLEDON LTD	EUROPE TRACTOR PARTS S.R.L.
CIEMMECALABRIA S.R.L.	EUROPEAN DRAINAGE SYSTEMS HOLDINGS LIMITED
CINTASA SA	EWART ENGINEERING LIMITED
CINTIOLI - S.R.L.	F.A.E. SRL
CLAAS KGAA MBH	F.A.M.A.R. S.R.L.
CNH INDUSTRIAL N.V.	F.B.N. S.R.L.
CO.MAC. S.R.L.	F.I. AUTOMAZIONE - S.R.L.
CO.MEC.EL. COSTRUZIONI MECCANICHE ELETTRONICHE S.R.L.	F.LLI ROSSI S.R.L.
COBHAM PLC	F.O.M. INDUSTRIE - S.R.L.
COLLINSON PLC	FABDEC HOLDINGS LIMITED

FARCK S.P.A.	H.V.C. SUPPLIES (STOURBRIDGE) LIMITED
FB DESIGN S.R.L.	HEIDELBERGER DRUCKMASCHINEN AG
FGF SRL	HERMANOS TOIMIL GARCIA SL
FIELD SYSTEMS DESIGNS HOLDINGS PLC	HEROUX-DEVTEK INC.
FILIPPI LIDO SRL	HILL & SMITH HOLDINGS PLC
FIMER TECNOLOGIA DELL'IMBOTTIGLIAMENTO SRL	HOGFORS OY
FINMECCANICA S.P.A.	HOLYHEAD BOATYARD LIMITED
FRASTE S.P.A.	HUSQVARNA AB
FRATELLI ROBUSTELLI - S.R.L.	I.A.B. INDUSTRIA ACCESSORI BIGIOTTERIA S.R.L.
FRIGOMAT S.R.L.	I.MEC. SRL
G.B.G. - S.R.L.	IBERICA DE SUSPENSIONES SL
G.H.B. (HOLDING) LIMITED	II-VI INC
G.T. SILENZIATORI INDUSTRIALI S.R.L. NELLA FORMA ABBREVIATA G.T. S.R.L.	INDECO IND S.P.A.
GANDINI INDUSTRIA S.R.L.	INDUS HOLDING AG
GAS & DIESEL POWER AS	INDUSTRIA BRIANTEA FERRAMENTA MINUTERIE DI FUMAGALLI SRL
GENECTIVE	INDUSTRIAL GALVANIZADORA, SA
GEVELOT SA	INDUSTRIAS MONTANESAS ELECTRICAS MECANICAS SL
GHERARDI S.R.L. -ATTREZZATURE EDILI	ING. BONFIGLIOLI S.P.A.
GILBERTS (BLACKPOOL) LIMITED	INGERSOLL-RAND PLC
GIRBAU SA	INOX PIAVE S.R.L.
GKN PLC	ITALFUA S.R.L.
GNUTTI CARLO S.P.A.	IVOR SEARLE LIMITED
GRANADA MATERIAL HANDLING LIMITED	KAOUSSIS, A., S.A.
GRIFFON CORP	KLEVEN MARITIME HOLDING AS
GRIMA S.R.L.	KOENIG UND BAUER AG
GRUPO CLAVIJO ELT SL	KONECRANES OYJ
GRUPO EMPRESARIAL ALCOR S.L.	KONGSBERG GRUPPEN ASA
GUARESÌ S.P.A.	LA B & G DI BARDINI ENRICO & C. S.R.L.
GUS-BI OFFICINA MECCANICA S.P.A.	LATECOERE SA

LINDAB INTERNATIONAL AB	MUOTOLEVY OY
LONATI S.P.A.	NANCHINO AUTOMAZIONI INDUSTRIALI S.R.L.
LUCIANO SORLINI S.P.A.	NARVIFLEX
LUNA QUINTO - S.P.A.	NAVALIMPIANTI - S.P.A.
M.A.X. AUTOMATION AG	NIELSEN & NIELSEN HOLDING A/S
MACPRESSE EUROPA S.R.L.	NOGVA MOTORFABRIKK AS
MAIR WILFRIED SRL	NORTAN S.R.L.
MALM ORSTAD AS	NOVA - S.R.L.
MANTHORPE LIMITED	NUOVA CARPENTERIA ODOLESE S.P.A.
MARDEN EDWARDS LIMITED	NUOVA EUROMEC S.R.L.
MAREL HF.	NUOVA IDROPRESS - SOCIETA' PER AZIONI IN FORMA ABBREVIATA NIP S.P.A.
MARIOTTI E PECINI - S.R.L.	O.C.M.L. OFFICINE COSTRUZIONI METALMECCANICHE LOMBARDE S.P.A.
MARSU SL	O.M.A.R. S.R.L.
MASCAR SPA	OFFICINA MECCANICA INVERNIZZI S.R.L.
MASCHINENFABRIK BERTHOLD HERMLE AG	OFFICINA MECCANICA SESTESE S.P.A.
MATTEUZZI SRL	OFFICINA RIPARAZIONI MACCHINE GRAFICHE- O.R.M.A.G.- S.P.A.
MECANIZADOS ACEBRON SL	OFFICINE MINELLI S.R.L.
MECBO - S.R.L.	OFFICINE VITTORIO VILLA S.P.A.
MEGGITT PLC	OIKOS - VENEZIA S.R.L.
MEI INTERNATIONAL S.R.L.	OMAG S.R.L.
METALLITYO VALIMAKI OY	OMBA IMPIANTI & ENGINEERING S.P.A.
MILL SERVICE S.P.A.	ORBITAL ATK, INC.
MINO S.P.A.	ORMET S.P.A.
MO.SI.S. S.R.L. MONTAGGIO SIDERURGICI MANUTENZIONE SERVIZI	OSHKOSH CORPORATION
MORI 2 A SRL	OY LEINOLAT AB
MOSS S A S	PARKBURN PRECISION HANDLING SYSTEMS LIMITED
MTU AERO ENGINES AG	PASSONI PAOLO E FIGLI S.R.L.
MULTIPACK - SOCIETA' A RESPONSABILITA' LIMITATA	PEKTRA OY

PILATUS FLUGZEUGWERKE AG	SKS GROUP OY
PIZETA S.R.L. DI PERON E ZERBATO	SOCIETA' INDUSTRIALE COSTRUZIONE MACCHINE AGRICOLE S.P.A.- IN SIGLA S.I.C.M.A.-S.P.A.
PONSSE OYJ	SONECOL - INDUSTRIA METALURGICA DE UTILIDADES DOMESTICAS, S.A.
POWER TORQUE ENGINEERING LIMITED	SOREM TRASMISSIONI MECCANICHE SPA
PRECISION CASTPARTS CORP	SPIRIT AEROSYSTEMS HOLDINGS, INC.
PRESSES ET CISAILLES LEFORT	STE GIENNOISE DE CHAUDRONNERIE
PRESSVIT S.R.L.	STREPARAVA HOLDING S.P.A.
PRIMULTINI S.R.L.	STUCCHI SOCIETA' PER AZIONI
RAMA S.R.L.	SYNALLOY CORP
RAPID HOLDING AG	SYNDUS HOLDING B.V.
RICARDO PLC	SYSTEMAIR AB
RIVAL S.R.L. LAVORAZIONI MECCANICHE	TALLERES VACA SA
ROLLS-ROYCE HOLDINGS PLC	TARNOS SA
ROTOLOK (HOLDINGS) LIMITED	TEAGLE HOLDINGS LIMITED
ROTONDI GROUP SRL	TECHNIPES S.R.L.
ROWECORD HOLDINGS LIMITED	TECNIWELL S.R.L.
R-SARKON OY	TEXTRON INC
SAAB AB	THALES SA
SACAP S.R.L.	THYSSENKRUPP AG
SAF - S.P.A.	TORNOS HOLDING S.A
SAFRAN	TRANSMISIONES LA MAGDALENA SOCIEDAD LIMITADA
SANDVIK AB	TRAVAGLINI S.P.A.
SASSI HOLDING SPA	TRC COMPANIES INC
SCHWEITER TECHNOLOGIES AG	TTS GROUP ASA
SENSATA TECHNOLOGIES HOLDING N.V.	TUME-AGRI OY
SEPURA PLC	UNIVER S.P.A.
SERRALHARIA DO OUTEIRO, LDA	UTECO-CONTEC S.R.L.
SILLA MACCHINE EDILI E STRADALI S.R.L.	VASTO FERRO S.R.L.
SKIPSTEKNISK AS	VECAPS COMMERCIALE S.R.L.

VEGA RONNEBY AB	WS ATKINS PLC
WACKER NEUSON SE	ZEHNDER GROUP AG
WARTSILA OYJ	
WHALE TANKERS LIMITED	
WILLIAM KING LIMITED	
WOODWARD, INC.	
WORTHINGTON INDUSTRIES INC	

2. Companies used to determine the 2016/17 profit rate for the 'provide and maintain' activity type

Table 2 presents the 95 companies that were used to determine the 2016/17 underlying profit rate for the 'provide and maintain' activity characterisation.

The following criteria were applied to extract potentially comparable companies from the financial database, in the initial data review. These criteria are company legal form, independence, whether companies were active, region (place of incorporation), turnover and profit. Specific NACE codes and text search terms were also applied to the data at this stage to extract companies with potentially comparable functions (see paragraphs 4.9 to 4.23). A detailed data review of this initial group was then undertaken and companies were excluded if examination of their data and information showed they were not an appropriate comparator (see paragraphs 4.24 to 4.27). This review process resulted in 119 accepted comparator companies.

Further companies were excluded if they did not meet the turnover and profit criteria in the most recent year (see section 5). Of the 119 companies that were identified, 95 met the turnover criteria and had positive capital servicing adjusted net cost plus rates in the most recent year (2014) for which financial data was available. These were therefore used to calculate the 'provide and maintain' activity type's 2016/17 underlying profit rate.

Table 2

AERCAP HOLDINGS N.V.	BUTLER NATIONAL CORP.
AGGREKO PLC	CAE INC
AIR CHARTER SERVICE GROUP PLC	CANADREAM CORPORATION
AIR PARTNER PLC	CAR SERVER SPA
ALQUILER DE MAQUINARIA RENTAIRESA	CLOVIS LOCATION
AMERICAN SHIPPING COMPANY ASA	CORDINI SOCIETA' A RESPONSABILITA' LIMITATA
ARCAM AB	DAEGIS INC.
ASSTEAD GROUP PUBLIC LIMITED COMPANY	DAWSONGROUP PLC
ASLE SKOVENG KRANSERVICE A/S	DEFENSE CONSEIL INTERNATIONAL
AUTOCANADA INC.	DEL BO IMPIANTI S.R.L.
AUTOHORN LIMITED	DYCOM INDUSTRIES INC
AVATION PLC	EASTERN COMPANY (THE)
AZZ INC	ELECTRO RENT CORPORATION
BABCOCK INTERNATIONAL GROUP PLC	ELVIRIA LEASING LIMITED
BERTHON BOAT COMPANY LIMITED(THE)	F.LLI BELTRAME S.P.A.
BLUE SKY INTERMODAL (UK) LTD.	FIELD INTERNATIONAL HOLDINGS (DORSET) LIMITED
BOELS HOLDING B.V.	FLUGHAFEN WIEN AG
BSM TECHNOLOGIES INC	FMG SUPPORT GROUP LIMITED

GAMA AVIATION PLC	NORTHGATE PLC
GENERAL FINANCE CORPORATION	PEIXOTO & PEIXOTO, LDA
GHL HOLDINGS LIMITED	PENDENNIS SHIPYARD (HOLDINGS) LIMITED
GREENBRIER COMPANIES INC	PILATUS FLUGZEUGWERKE AG
GROUNDWATER LIFT TRUCKS LIMITED	RAMIRENT OYJ
HAMEEN RAKENNUSKONE OY	RANGE RESOURCES CORP
HELICOPTER TRANSPORTATION GROUP AS	REFLEX ALQUILER FLEXIBLE DE VEHICULOS, SOCIEDAD ANONIMA
HEROUX-DEVTEK INC.	ROTREX GROUP LIMITED
HUNTINGTON INGALLS INDUSTRIES, INC.	RRPF ENGINE LEASING LIMITED
INTERNATIONAL TRUCKS AND TRACTORS SL	RYGAARD HOLDING, GRENA A/S
ITEL S.P.A.	SALTIRE ENERGY LIMITED
JOFEME SA	SCIENCE APPLICATIONS INTERNATIONAL CORP
JOHN NIXON LIMITED	SCOT GROUP SOUTHERN LIMITED
JOHNSON & PERROTT, LIMITED	SH INVEST AS
KROPMAN HOLDING B.V.	SOCIETA PER AZIONI ESERCIZI AEROPORTUALI S.E.A.
LAVENDON GROUP PLC	SOCIETE DES CARS LAMBERT
LCV HIRE SOLUTIONS LIMITED	SPIRIT AEROSYSTEMS HOLDINGS, INC.
LGH HOLDINGS LIMITED	SQS SOFTWARE QUALITY SYSTEMS AG
LOCATION SERVICE LOCA SER	SR CAR S.R.L.
LSG INDUSTRIALS LIMITED	SUN ORGANISATION PLC
MARSHALL OF CAMBRIDGE (HOLDINGS) LIMITED	T.W. WHITE & SONS (HOLDINGS) LIMITED
MEDIACO MARSEILLE PROVENCE	TAT
MOEN MARIN GROUP AS	TESSCO TECHNOLOGIES INC
MOLSON GROUP LTD	TORA
MONRO MUFFLER BRAKE INC	TOTAL AIRCRAFT PRODUCT SUPPORT (HOLDINGS) LIMITED
MOTORCAR PARTS OF AMERICA, INC.	TOTAL ENERGY SERVICES INC.
MSC INDUSTRIAL DIRECT CO INC	TRIUMPH GROUP INC
MTS NATIONWIDE LIMITED	VACU-LUG TRACTION TYRES LIMITED
MTU AERO ENGINES AG	VMS (HOLDINGS) LIMITED
NIEDERSTAETTER S.P.A.	

Appendix D - The SSRO's assessment of the appropriate baseline profit and capital servicing rates, 2016/17

Table 1: Profit rates underlying the baseline profit rate, 2016/17

	Unadjusted for capital servicing, annual	Adjusted for capital servicing, annual	Three year rolling average, adjusted for capital servicing
Develop and Make	6.42%	5.51%	8.77%
Provide and Maintain	8.61%	6.60%	9.13%
Composite of 'develop and make' and 'provide and maintain'	7.52%	6.06%	8.95%

Recommended baseline profit rate for 2016/17: 8.95 per cent

Table 2: Recommended capital servicing rates, 2016/17

	Recommended rate for 2016/17
Fixed capital servicing rate	5.08%
Positive working capital servicing rate (applied to positive working capital balances)	1.40%
Negative working capital servicing rate (applied to negative working capital balances)	0.74%

Table 3: Baseline profit rate, 2014/15 to 2016/17

	2014/15 (actual)	2015/16 (actual)	2016/17 (recommended)
Underlying (annual)	10.92%	9.88%	6.06%
Three year rolling average	10.70%	10.60%	8.95%

