Babcock Mission Critical Services Offshore Limited

Annual Report

For the year ended 31 March 2020

Company registration number:

04278474

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Babcock Mission Critical Services Offshore Limited

Directors and advisors

Current directors

I H Cooke
P Craig

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR
United Kingdom

Babcock Mission Critical Services Offshore Limited

Strategic report for the year ended 31 March 2020

The directors present their Strategic report on the Company for the year ended 31 March 2020.

Principal activities

The principal activities of the Company are the provision and operation of twin-engine helicopters for the offshore oil and gas market. The business model is characterised by long-term contracts generally of three to five years duration but more recently by short term ad-hoc contracts. The majority of revenue is generated from fixed fees for aircraft availability with the remainder from variable revenues based on actual flying activity.

Review of the business

	2020	2019
	£000	£000
Revenue	**102,025**	133,722
Underlying operating (loss)/profit	**(6,049)**	5,794
Exceptional administrative expense	**(10,185)**	(8,672)
(Loss) before taxation for the financial year	**(21,809)**	(2,873)
Pre-exceptional operating (loss)/profit as a % of revenue	**(5.93)%**	4.33%

Over the course of the year, the Company's core business activities faced continued commercial pressures with reduced activity, despite a stabilised oil price. There has still been a continuing need for companies operating in the UK oil & gas market to lower operating costs whilst maintaining service delivery and ensuring the highest level of safety within the industry for its customers and passengers.

The Company continues to operate helicopter services for the oil & gas market, using a mixed fleet of aircraft from its bases in Aberdeen, Blackpool, and Sumburgh.

As part of the wider Babcock International Group, the Company continues to benefit from being part of the much larger group with support to enhance fleet capability, leverage of both fleet finance and procurement activities and the overall financial strength of the Group. The Company will continue to develop increased capability for its customers through the wider support activities of the Group.

Following continued difficulties in the oil and gas sector and competitor pricing and leasing difficulties, an exceptional provision of £5,246,000 was recognised for loss making contracts where unavoidable costs of meeting the obligations under these contracts exceed the associated expected future net benefits. The company also impaired right of use assets by £4,939,000 during the year, relating to exceptional onerous lease costs where the expected benefits to be derived by the company are lower than the unavoidable cost of meeting its obligations under the contract. The business remains optimistic on the future and there remains significant long and short term opportunities both at a tactical and a strategic level. The company has won two new major contracts post year end with contract length of 5 years to align with its strategic objectives.

The Company identified a number of key performance indicators ('KPIs') that reflect the internal benchmarks used to manage and monitor the performance of the business, which are noted below.

The Company generated revenue of £102,025,000 during the year ended 31 March 2020 (2019: £133,722,000).The current year revenue decrease of (£31,697,000) was mainly due to a decrease in flying hours (£11,371,000), monthly standing charges (£17,149,000) and recharges (£3,177,000). Overall the revenue decrease is mainly due to reduced activity and loss of a major contract. The decrease in revenue was offset by decrease in cost of sales £30,912,000, resulting in gross profit falling by £785,000. The pre-exceptional operating loss of the Company increased to (£6,049,000) during the year ended 31 March 2020 from £5,794,000 profit in 2019.

Strategic report for the year ended 31 March 2020 *(continued)*

The change from a net current asset position in 2019 to a net current liability position in 2020 has been principally driven by the transition to IFRS 16 which has meant recognising £24,208,000 of lease liabilities in current liabilities but recognising the corresponding right-of-use assets in non-current assets. This is merely a change in accounting standard and does not reflect a change in the performance or position of the business.

The change from a net asset position in 2019 to a small net liability position in 2020 has been driven by both exceptional costs and the underlying performance of the Company in 2020. The purpose of the exceptional costs was to better align the Company with the market. This is intended to put the Company in a stronger position and improve future financial performance.

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 Aviation, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 76 to 77 of the Group's report, which does not form part of this report.

Principal risks and uncertainties

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

The key risks and uncertainties affecting the Company are considered to be related to the nature of the services provided, which is often compounded through low-altitude flying in adverse climatic or operational conditions or terrains. Other factors include the impact of volatility in the oil and gas market from which the Company derives a large proportion of its revenues. The directors manage this risk by meeting on a regular basis to discuss these risks.

The impacts of Brexit and COVID-19 are considered a cause of uncertainty and risk. Together they can cause volatility in foreign exchange rates, reduced consumption and potential operational and administrative changes. With recent news of COVID-19 vaccines being successfully developed and approved globally and a Brexit trade deal being agreed between the UK and the EU, it is believed that the uncertainties and risks around Brexit and COVID-19 will diminish. The risks associated with oil and gas market volatility, exacerbated by the COVID-19 pandemic, are deemed more significant.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19 is provided on pages 80 to 92 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

S172(1) statement and stakeholder engagement.

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders, including customers, employees, suppliers and the wider community. Stakeholder engagement is managed in accordance with Group policies and

procedures which are discussed on pages 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group annual report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees. During the year, the Directors additionally considered the renewal of existing customer contracts and work on future contract renewals and new business activity.

On behalf of the board

I H Cooke

Director

15 January 2021

Directors' report for the year ended 31 March 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

Dividends

No final dividend for the year ended 31 March 2020 has been provided by the directors (2019: £nil).

Review of the business and future developments

Information on the review of the Company's business during the year, together with information on the Company's risks and uncertainties and future developments, can be found in the Strategic Report

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 65 to 67 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report

Price risk
The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

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

Interest rate cash flow risk
The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Financial risk management *(continued)*

Foreign exchange risk
The functional and presentational currency of the Company is Sterling. The company has exposure to number of foreign currencies, the most significant being the USD. To mitigate this risk, the Company's policy is to hedge all material transactional exposures, using financial instruments where appropriate.

Directors

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

I H Cooke (appointed 01 May 2020)
N Arslan (appointed 01 April 2020; resigned 15 October 2020)
P Craig (appointed 01 April 2019)
D F Plester (resigned 01 April 2019)
S J Meakins (resigned 01 May 2020)
A H Pentecost (resigned 31 March 2020)

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Directors' report for the year ended 31 March 2020 *(continued)*

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).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 the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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.

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.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

The company has net current liabilities at the balance sheet date as shown in page 12. The change from a net current asset position in 2019 to a net current liability position in 2020 has been principally driven by the transition to IFRS 16 which has meant recognising £24,208,000 of lease liabilities in current liabilities but recognising the corresponding right-of-use assets in non-current assets. This is merely a change in accounting standard and does not reflect a change in the performance or position of the business.

The company also has net liabilities at balance sheet date as shown in page 12. The change from a net asset position in 2019 to a small net liability position in 2020 has been driven by both exceptional costs and the underlying performance of the Company in 2020. The purpose of the exceptional costs was to better align the Company with the market. This is intended to put the Company in a stronger position and improve future financial performance.

The directors consider the Company to be a going concern after taking into account that a fellow group company, Babcock Defence and Security Investments Limited, has provided a letter of support for at least 12 months from the date of the signing of these financial statements so that the company can continue to meet its liabilities as they fall due for this period. The Company has undertaken a strategic review of its operating model as part of a wider project performed across the Group, and the Company has made a number of changes to reduce its cost base and approach to considering new business opportunities. The Brexit transition period has now completed, giving more certainty, and recent contract wins will improve the future profitability of the Company.

Reappointment of auditors

PricewaterhouseCoopers LLP, were appointed as auditors at the Annual General Meeting.

On behalf of the board

I H Cooke

Director

15 January 2021

Independent auditors' report to the members of Babcock Mission Critical Services Offshore Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Mission Critical Services Offshore Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance sheet as at 31 March 2020; the Income statement, the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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 by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Jonathan Bound (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
15 January 2021

Income statement

for the year ended 31 March 2020

	Note	2020 £000	2019 £000
Revenue	4	**102,025**	133,722
Cost of sales		**(90,021)**	(120,933)
Gross profit		**12,004**	12,789
Administrative expenses		**(18,053)**	(6,995)
Exceptional administrative expenses	5	**(10,185)**	(8,672)
Operating (loss)		**(16,234)**	(2,878)
Finance income	6	**11**	5
Finance costs	6	**(5,586)**	-
(Loss) before tax	7	**(21,809)**	(2,873)
Tax on (loss)	10	**1,086**	186
(Loss) for the financial year		**(20,723)**	(2,687)

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2020

	2020 £000	2019 £000
(Loss) for the financial year	**(20,723)**	(2,687)
Other comprehensive (expense)/ income		
Items that may be reclassified to profit or loss		
Fair value adjustment of foreign exchange hedges	**(69)**	205
Total comprehensive (expense) for the financial year	**(20,793)**	(2,482)

Balance sheet

as at 31 March 2020

	Note	**2020 £000**	2019 £000
Non-current assets			
Intangible assets	11	**-**	-
Tangible fixed assets	12	**6,275**	6,901
Right-of-use assets	13	**90,012**	-
Deferred tax asset	14	**1,387**	-
		97,674	6,901
Current assets			
Inventories	15	**1,145**	1,029
Trade and other receivables	16	**40,332**	43,900
Deferred tax asset	14	**-**	301
Cash and cash equivalents		**1,655**	16,738
		43,132	61,968
Current Liabilities			
Trade and other payables – amounts falling due within one year	17	**(29,942)**	(37,787)
Lease liabilities	18	**(24,208)**	-
Provisions for liabilities	19	**(3,498)**	-
Net current (liabilities)/ assets		**(14,516)**	24,181
Total assets less current liabilities		**83,158**	31,082
Trade and other payables – amounts falling due after more than one year	17	**(17,888)**	(557)
Lease liabilities	18	**(67,398)**	-
Provisions for liabilities	19	**(1,747)**	(8,672)
Net (liabilities)/assets		**(3,875)**	21,853
Equity			
Called up share capital	20	**53**	53
Other reserves		**(69)**	-
(Accumulated losses)/Retained earnings		**(3,859)**	21,800
Total shareholders' funds		**(3,875)**	21,853

The notes on pages 14 to 32 are an integral part of these financial statements.

The financial statements on pages 11 to 32 were approved by the board of directors on 15 January 2021 and signed on its behalf by:

I H Cooke
Director

Statement of changes in equity
for the year ended 31 March 2020

	Called up share capital £000	Other reserves £000	Retained earnings/ (Accumulated losses) £000	Total shareholders' funds £000
Balance at 1 April 2018	53	(205)	24,487	24,335
Loss for the financial year	-	-	(2,687)	(2,687)
Other comprehensive income	-	205	-	205
Total comprehensive (expense) for the financial year	-	205	(2,687)	(2,482)
Balance at 31 March 2019	**53**	**-**	**21,800**	**21,853**
Effect of adoption of IFRS16 (net of tax) (note25)	**-**	**-**	**(4,936)**	**(4,936)**
Balance at 1 April 2019 after adoption of IFRS 16	**53**	**-**	**16,864**	**16,917**
Loss for the financial year	**-**	**-**	**(20,723)**	**(20,723)**
Other comprehensive (expense)	**-**	**(69)**	**-**	**(69)**
Total comprehensive (expense) for the financial year	**-**	**(69)**	**(20,723)**	**(20,792)**
Balance at 31 March 2020	**53**	**(69)**	**(3,859)**	**(3,875)**

Notes to the financial statements

1 General information

Babcock Mission Critical Services Offshore Limited is a private company, limited by shares, which is incorporated and domiciled in the UK. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented with the exception of IFRS 16 as described below.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of derivative financial liabilities measured at fair value, and in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Mission Critical Design and Completions Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

a) IFRS 7, 'Financial instruments: Disclosures'
b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
f) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

g) IAS 7, 'Statement of cash flows'

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
i) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
j) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

The company has net current liabilities at the balance sheet date as shown in page 11. The change from a net current asset position in 2019 to a net current liability position in 2020 has been principally driven by the transition to IFRS 16 which has meant recognising £24,208,000 of lease liabilities in current liabilities but recognising the corresponding right-of-use assets in non-current assets. This is merely a change in accounting standard and does not reflect a change in the performance or position of the business.

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The directors consider the Company to be a going concern after taking into account that a fellow group company, Babcock Defence and Security Investments Limited, has provided a letter of support for at least 12 months from the date of the signing of these financial statements so that the company can continue to meet its liabilities as they fall due for this period. The Company has undertaken a strategic review of its operating model as part of a wider project performed across the Group, and the Company has made a number of changes to reduce its cost base and approach to considering new business opportunities. The Brexit transition period has now completed, giving more certainty, and recent contract wins will improve the future profitability of the Company.

Adoption of new and revised standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 16, 'Leases' has been adopted in the year (effective 1 January 2019) and replaces IAS 17 as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Under the new standard, the Company has now recognised almost all leases, where the Company is a lessee, on the balance sheet as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

The Company has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. For a number of high value aircraft leases however, the right-of-use asset values have been calculated as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures have not been restated for the year ended 31 March 2019.

The following practical expedients have been adopted on transition:

• Single discount rates have been applied to portfolios of leases with similar characteristics
• IFRS 16 has only been applied to contracts that were previously classified as leases
• For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition
• Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
• The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

Right-of-use asset are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, “Impairment of Assets”. Depreciation is charged on a straight-line basis over the full length of the lease.
Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin, in accordance with the Group's pricing principles. The Company's contracts typically do not include significant financing components.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time.

Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the company's performance as it performs; or
- the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for work done; or
- the company's performance creates or enhances an asset controlled by the customer.

Most of the Company's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Company's performance as it performs or the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done.

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group management. Assessment of outcomes are in relation to separate performance obligations and include variable consideration, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Company presents as a liability the gross amount due to customers

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(d) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

Intangible assets

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

a) *Computer software*

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Fixtures and fittings	10%
Computer equipment	25%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount exceeds the higher of an asset’s fair value less cost to sell or value in use.

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Trade receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

The Company applies the IFRS9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade payables

Trade payables are measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method.

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post-retirement benefits

The Company participates in a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.
Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Lessee Accounting

For lessees there is no longer a distinction between finance or operating leases as all leases are now recognised on the balance sheet. When a lease commences, a lease liability is recognised that is equal to the present value of the minimum lease payments. A right-of-use asset is also recognised and is equal in value to the lease liability. This represents the right to use the leased asset for the full lease term.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Short-term leases and low-value leases are exempt from recognition on the balance sheet, and the payments are instead recognised on a straight-line basis in the income statement in the same way as they would have been under IAS 17. A lease is considered short-term if the total lease length is less than 12 months, and low-value if the underlying asset would cost less than £5,000 to buy new.

Right-of-use assets are depreciated over the shorter of the assets's useful life or expected term of the lease. Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of

factors including asset type, lease currency and lease term. When lease payments are made, the lease liabilities reduce. Therefore both right-of-use assets and lease liabilities have nil value at the end of the lease.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or, gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.
In previous years, under IAS 17, operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and contract assessments are updated regularly.

Exceptional Items

Items which are both non-recurring and material in either size or nature are presented as exceptional items within the relevant income statement line. The principle items which are included as exceptional are costs that are not considered to be part of the normal operating costs of the company. This cost is an onerous lease charge. See note 5 for further details.

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below.

a) **Inventory provisioning**

The Company provides helicopter services to customers and has associated components necessary to provide this service as part of inventory. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 15 for the net carrying amount of the inventory and associated provision.

b) **Impairment assessment of property, plant and equipment and right of use of assets**

The carrying value of property, plant and equipment and right of use assets is sensitive to changes in the estimated useful economic lives and residual values of the assets together with their expected cash inflows from continued use. The useful economic lives and residual values are re-assessed annually.

They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 12 and 13 for the carrying amount and note 2 'Property, plant and equipment' and 'Lessee Accounting' for the useful economic lives and information on how impairment for each class of asset is assessed

c) Onerous contract provisioning

Customer contracts are reviewed to determine the present value cost of these commitments versus expected future cash flows. See note 19 for details of the onerous contract provision and note 2 'Provisions for liabilities' for more information on how the provision is assessed.

Notes to the financial statements *(continued)*

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2020	2019
	£000	£000
By area of activity:		
Long term contracts – fixed fees	**52,817**	69,965
Flying hours	**34,358**	45,729
Other – recharged costs	**14,850**	18,028
	102,025	133,722

	2020	2019
	£000	£000
By geographical area:		
United Kingdom	**102,025**	133,445
Europe	**-**	277
	102,025	133,722

5 Exceptional administrative expenses

	2020	2019
	£000	£000
Contract provision	**5,246**	-
Onerous lease provisions	**-**	8,672
Right of use asset impairment	**4,939**	-
	10,185	8,672

As highlighted in the strategic report a contract provision of £5,246,000 (note 19) was taken during the year for the loss making contracts where unavoidable costs of meeting the obligations under these contracts exceeds the associated, expected future net benefits. Additionally, we have impaired the right of use asset by £4,939,000 in relation to onerous leases (note 13). During the prior year an onerous lease provision of £8,672,000 was taken to reflect the excess of the present value of these commitments costs versus expected future cash flows.

Notes to the financial statements *(continued)*

6 Finance income and costs

	2020 £000	2019 £000
Finance income:		
Loan interest receivable from group undertakings	**11**	5
	11	5

	2020 £000	2019 £000
Finance costs:		
Bank interest	**976**	-
Lease interest	**4,610**	-
	5,586	-

7 (Loss) before taxation

(Loss) before taxation is stated after charging / (crediting):

	2020 £000	2019 £000
Loss on disposal of property, plant and equipment	**305**	482
Depreciation of tangible fixed assets	**1,231**	1,316
Amortisation of intangible assets	**-**	1
Depreciation of right of use assets	**22,678**	-
Inventory recognised as an expense	**7,085**	8,247
Impairment of inventory	**374**	491
Operating lease charges		
- short term lease charges	**1,999**	-
- low value lease charges	**99**	-
- plant and machinery	**-**	31,632
- other	**-**	1,364
Foreign exchange losses/(gains)	**3,755**	(203)
Audit fees payable to the Company's auditor	**42**	34

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 the ultimate parent undertaking, Babcock International Group PLC. The group accounts are required to comply with the statutory disclosure requirements.

Notes to the financial statements *(continued)*

8 Staff costs

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2020 Number	2019 Number
By activity:		
Operations	**326**	361
Management and administration	**37**	71
	363	432

Their aggregate remuneration comprised:

	2020 £000	2019 £000
Wages and salaries	**22,909**	25,723
Social security costs	**2,569**	3,060
Other pension costs (note 21)	**1,473**	1,614
	26,951	30,397

Included in other pension costs are £1,473,000 (2019: £1,614,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

9 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were as follows:

	2020 £000	2019 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	**156**	190
Defined contribution pension scheme	**11**	14
	167	204

Except for one (2019: one) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

Notes to the financial statements *(continued)*

10 Tax on (loss)

Tax expense included in income statement

	2020 £000	2019 £000
Current tax:		
UK Corporation tax on losses for the year	**-**	-
Adjustment in respect of prior year	**-**	-
Current tax charge for the year	**-**	-
Deferred tax:		
Origination and reversal of temporary differences	**(1,341)**	(300)
Adjustment in respect of prior years	**260**	82
Impact of change in UK tax rate	**(5)**	32
Total deferred tax (credit) (note 14)	**(1,086)**	(186)
Tax on (loss)	**(1,086)**	(186)

Tax credit for the year is lower (2019: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
(Loss) before taxation	**(21,809)**	(2,873)
(Loss) multiplied by standard UK corporation tax rate of 19% (2019: 19%)	**(4,144)**	(546)
Effects of:		
Expenses not deductible for tax purposes	**455**	135
Group relief surrendered for nil consideration	**2,348**	111
Adjustments in respect of deferred tax for prior years	**260**	82
Impact of change in UK tax rate	**(5)**	32
Tax (credit) for the year	**(1,086)**	(186)

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal. As a result a credit of £5,000 has been taken to the income statement in respect of the re-measurement of year end UK deferred tax balances to 19%.

Notes to the financial statements *(continued)*

11 Intangible assets

	Software £000
Cost	
At 1 April 2019 and 31 March 2020	**238**
Accumulated amortisation and impairment	
At 1 April 2019	(238)
At 31 March 2020	**(238)**
Net book value	
At 31 March 2020	**-**
At 31 March 2019	-

Intangible assets amortisation is recorded in administrative expenses in the income statement.

12 Tangible fixed assets

	Leasehold property £000	Plant and equipment £000	Fixtures and fittings £000	Computer equipment £000	Total £000
Cost					
At 1 April 2019	10,396	8,516	890	479	20,281
Additions	-	910	-	-	910
Disposals	(195)	(675)	(142)	(63)	(1,075)
At 31 March 2020	**10,201**	**8,751**	**748**	**416**	**20,116**
Accumulated depreciation					
At 1 April 2019	(6,186)	(6,110)	(613)	(471)	(13,380)
Charge for the year	(547)	(625)	(54)	(5)	(1,231)
Disposals	124	479	104	63	770
At 31 March 2020	**(6,609)**	**(6,256)**	**(563)**	**(413)**	**(13,841)**
Net book value					
At 31 March 2020	**3,592**	**2,495**	**185**	**3**	**6,275**
At 31 March 2019	4,210	2,406	277	8	6,901

Notes to the financial statements *(continued)*

13 Right-of-use assets

	Leasehold property £000	Plant and equipment £000	Aircraft Fleet £000	Total £000
Cost				
On transition to IFRS 16 - 1 April 2019	5,381	194	143,609	**149,184**
Additions	253	-	20,367	20,620
Terminations	(269)	(3)	(25,533)	(25,805)
At 31 March 2020	5,365	191	138,443	143,999
Accumulated depreciation				
On transition to IFRS 16 - 1 April 2019	-	-	(51,310)	(51,310)
Charge for the year	(1,212)	(48)	(21,418)	(22,678)
Terminations	269	3	24,668	24,940
Impairment	-	-	(4,939)	(4,939)
At 31 March 2020	**(943)**	**(45)**	**(53,999)**	**(53,987)**
Net book value				
At 31 March 2020	**4,422**	**146**	**85,444**	**90,012**
On transition to IFRS16 – 1 April 2019	**5,381**	**194**	**92,299**	**97,874**

Right of use asset impairment during the year is due to exceptional onerous lease cost where unavoidable costs of meeting the obligations under these contracts exceeds the associated, expected future net benefits.

14 Deferred tax asset

The major components of the deferred tax asset recorded is as follows:

Deferred tax asset	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2018:	(26)	(89)	(115)
- Charged/(credited) to the income statement	11	(197)	(186)
At 31 March 2019:	**(15)**	**(286)**	**(301)**
- Charged/(credited) to the income statement	**(1,350)**	**264**	**(1,086)**
At 31 March 2020:	**(1,365)**	**(22)**	**(1,387)**

The deferred tax asset recognised during the year is recoverable within 3 to 5 years from either utilisation against the company's future profits or surrendered via group relief against future profits within the Babcock International Group PLC group.

15 Inventories

	2020 £000	2019 £000
Aircraft Spares	**950**	689
Fuel	**195**	340
	1,145	1,029

Notes to the financial statements *(continued)*

15 Inventories *(continued)*

There is no significant difference between the replacement cost of the inventory and its carrying amount. Inventories are stated after provisions for impairment of £1,786,000 (2019: £1,412,000).

16 Trade and other receivables

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade receivables	**9,540**	11,065
Amounts due by group undertakings	**10,679**	14,454
Other receivables	**10,391**	9,662
Prepayments and accrued income	**9,722**	8,719
	40,332	43,900

Amounts due by group undertakings within one year are unsecured, repayable on demand and bear no interest.

Trade receivables are stated after provision for impairment of £nil (2019: £nil).

17 Trade and other payables

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade payables	**9,654**	9,625
Amounts due to parent and group undertakings	**1,765**	554
Taxation and social security	**680**	803
UK corporation tax payable	**967**	967
Derivative financial instruments	**69**	-
Other payables	**1,238**	1,765
Accruals and deferred income	**15,569**	24,073
	29,942	37,787

Amounts owed to parent and group undertakings within one year are interest free, unsecured and repayable on demand.

Amounts falling due after more than one year:

	2020 £000	2019 £000
Amounts due to parent and group undertakings	**17,888**	-
Accrual and deferred income	**-**	557
	17,888	557

Amounts owed to parent and group undertakings for more than one year are unsecured, have an interest rate of 4% and are repayable in 2028. The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 23).

Notes to the financial statements *(continued)*

18 Lease liabilities

The entity leases various offices and warehouses under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases aircraft under non-cancellable operating leases.

The lease obligations are due as follows

Lease liabilities	2020 £000	2019 £000
Due less than one year	24,208	-
Due more than one year	67,398	-
Total	**91,606**	**-**

Lease obligations are repayable as follows:

Lease liabilities	2020 £000	2019 £000
within one year	24,208	-
between two and five years	56,521	-
after five years	10,877	-
Total	**91,606**	**-**

Lease commitments for short term leases as at 31 March 2020 were £1m.

19 Provisions for liabilities

	Contract Provision £000	Onerous Lease provision £000	Total £000
At 1 April 2019	**-**	8,672	8,672
Charged to the income statement	5,246	-	5,246
Transition to IFRS 16	-	(8,672)	(8,672)
At 31 March 2020	**5,246**	**-**	**5,246**

Provisions	Up to one year £000	Between 2 and 5 years £000	Total £000
As at 31 March 2020	3,498	1,748	5,246
As at 31 March 2019	8,672	-	8,672

19 Provisions for liabilities *(continued)*

The calculation of these provisions involves the use of estimates.

Onerous lease provisions

The company has entered into a number of lease commitments related to specific assets in the ordinary course of its business. Where the unavoidable costs of meeting the obligations under these contracts exceeds the associated, expected future net benefits, an onerous contract provision is required.

The company has included a provision for nil (2019: £8,672,000) for unavoidable losses on onerous aircraft leases to reflect the cost commitments versus current market rates.
For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition.

Contract provisions

Contract provisions relate to expected contract losses. These are based on the assessment of future costs and are assessed with reference to past experience. Contract provisions have not been discounted.

The company has included a provision for £5,246,000 (2019: nil) for loss making contracts where unavoidable costs of meeting the obligations under these contracts exceeds the associated, expected future net benefits.

20 Called up share capital

	2020	2019
	£000	£000
Allotted, called up and fully paid		
52,632 ordinary shares of £1 each (2019: 52,632)	**53**	53

21 Guarantees and financial commitments

Other Commitments

At 31 March 2020 the Company had unpaid pension contributions of £6,044 (2019: £279,501).

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees.

Refer note 25 for details of prior year operating lease commitments before implementation of IFRS16.

22 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

Notes to the financial statements *(continued)*

23 Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2019: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2019: £nil).

24 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Mission Critical Services Design and Completions Limited, a limited liability company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

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

25 Effects of changes in accounting policies

IFRS 16 has become effective from 1 January 2019 and replaces IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The company adopted the standard from 1 April 2019.

Under the new standard, lessees will recognise almost all leases on the statement of financial position as the distinction between finance leases and operating leases is removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments can be recognised as expenses on a straight-line basis. The approach for lessors remains largely unchanged.

The Company has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability is calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition is measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures will not be restated for the year ended 31 March 2019.

The Company has completed its transition to IFRS 16 and has taken advantage of permitted expedience to exclude leases under £5,000, leases of less than one year and service contracts in place at the date of transition.

The weighted average incremental borrowing rate applied by the company to the lease liabilities on 1 April 2019 was 4.89%.

The impact on the company statement of financial position at 1 April 2019 is reflected below:

Notes to the financial statements *(continued)*

25 Effects of changes in accounting policies *(continued)*

	Adjustments	31 March 2019 As originally presented £000	IFRS16 £000	1 April 2019 £000
Assets				
Right-of-use-assets	(a)	-	97,874	97,874
Liabilities				
Lease liabilities	(b)	-	(102,810)	(102,810)
Equity				
Retained earnings	(c)	(21,800)	4,936	(16,864)

a) The adjustment to right-of-use assets is to include operating type leases £97,874,000
b) The adjustment to lease liabilities is to include operating type lease commitments and below is the reconciliation of the minimum lease commitments disclosed in 31 March 2019 financial statements to the amount of lease liabilities recognised on 1 April 2019.
c) Retained earnings were adjusted to record the net effect of all adjustments.

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	Total £'000
Operating lease commitments at 31 March 2019	126,816
Effect of discounting	(11,764)
Change in assessment of lease term	(12,242)
IFRS 16 lease liability at 1 April 2019	**102,810**

The minimum operating lease payments for the previous year were

	2019 Land and buildings £000	2019 Other £000
Future minimum rentals payable under non-cancellable operating leases:		
- within one year	**1,330**	**27,598**
- between two and five years	**3,754**	**62,677**
- after five years	**2,774**	**28,682**
	7,858	**118,957**