Babcock Vehicle Engineering Limited

Annual report

For the year ended 31 March 2020

Company registration number:

00434529

Directors and advisors

Current directors

M Hayward
J Parker
R Taylor
I Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Chamberlain Square
Birmingham
B3 3AX

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 Company provides specialist vehicle conversion services in the Emergency Services and Defence sectors.

Review of the Business

	2020	2019
	£000	£000
Revenue	**32,533**	29,595
Operating Profit	**1,666**	1,100

The Company's major customer bases, being the differing government agencies, performed in line with expectations.

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

Management continues to use all relevant financial information in operating the Company's core contracts, in reviewing its production and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions, including KPIs of a non-financial nature.

In the last year the company has continued to maintain the high levels of quality and service to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to express a high level of satisfaction with this performance.

Operating profit for 2020 financial year includes profit on the sale of a freehold property in Uxbridge of £424k.

Principal risks and uncertainties

The principal risk of the company is external market factors. The company is dependent upon external party's vehicle replacement cycles and funding availability of different government agencies. The Company monitors projected replacement programmes and continually reviews its pipeline of opportunities to ensure it is appropriately resourced and has the appropriate level of infrastructure.

The company faces a level of risk relating to Brexit. The company continues to monitor ongoing developments relating to Brexit and will adjust holdings of inventories as appropriate to mitigate against any risk. The company continues to review export and import arrangements to ensure it can continue to operate in its current markets once Britain formally leaves the European Union.

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.

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

Future developments

In the wake of the impact of the Covid-19 pandemic and the UK government's decision to implement lockdown in March 2020, the directors have taken appropriate action to minimise the impact on trade and production. The directors are confident that the company will still be profitable in the forthcoming 12 months and beyond, although at present the full impact of the virus cannot be predicted with any certainty.

Attention in the short to medium term has been on continuing service to key UK critical key worker industries, managing cashflow and working capital, with the directors of the opinion that the company can continue to operate within its current and future financial parameters, and so continue to meet its debts as they fall due.

Beyond this the longer term strategy is to grow its market share and profitability. The directors continue to develop it capabilities and workforce to facilitate existing market sector expansion. As such, the directors believe the company to be a going concern and have adopted this assumption in preparing the financial statements.

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Land, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 74 to 75 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board

J Parker

Director

21 January 2021

Directors' report

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

Results and dividends

The company's results for the year are set out in the income statement on page 11 showing a profit for the financial year of £1,699,000 (2019: £1,094,000). At 31 March 2020 the company had net assets of £5,826,000 (2019: £10,127,000).

A total dividend of £6,000,000 (2019: £nil) has been paid in the current year and no final dividend for the year ended 31 March 2020 has been provided by the directors (2019: £nil).

A prior year restatement has been included within the Income Statement in relation to a reclassification adjustment between cost of sales and operating expenses. This has arisen from indirect costs which were incorrectly classified, further information can be found within the basis of preparation.

Operating profit and administration costs for 2020 financial year includes profit on the sale of a freehold property in Uxbridge of £423,910, with contracts exchanged on 25th March 2020.

Future developments

Information on the future developments of the Company 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 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. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

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.

Directors' report *(continued)*

Directors

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

M Hayward (Appointed 03/08/20)
S White (Resigned 03/08/20)
J Parker (Appointed 14/09/20)
S West (Resigned 14/09/20)
R Taylor
I Urquhart

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.

Research and development

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

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 *(continued)*

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK Accounting Standards, including 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;
- 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.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is 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 that information.

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.

Directors' report *(continued)*

Reappointment of auditors

PricewaterhouseCoopers LLP were reappointed as auditors at the Annual General Meeting.

On behalf of the board

J Parker

Director

21 January 2021

Independent auditors' report to the members of Babcock Vehicle Engineering Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Vehicle Engineering 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 profit 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 (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2020; the Income statement, the Statement of comprehensive income, 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.

Independent auditors' report to the members of Babcock Vehicle Engineering Limited (continued)

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.

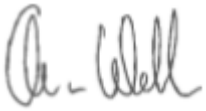
Other required reporting

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.



Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
25 January 2021

Income statement

for the year ended 31 March 2020

	Note	2020 £000	Restated 2019 £000
Revenue	4	**32,533**	29,595
Cost of sales		**(30,397)**	(27,588)
Gross profit		**2,136**	2,007
Administrative expenses		**(470)**	(907)
Operating profit	5	**1,666**	1,100
Finance income/(expense)	6	**2**	(15)
Profit before income tax		**1,668**	1,085
Income tax credit	9	**31**	9
Profit for the financial year		**1,699**	1,094

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2020

	2020 £000	2019 £000
Profit for the financial year	**1,699**	1,094
Other comprehensive income:		
Items that may be subsequently reclassified to income statement:		
Fair value adjustment of interest rate and foreign exchange hedges	-	-
Tax on fair value adjustment of interest rate and foreign exchange hedges	-	-
Items that will not be subsequently reclassified to income statement:		
Result on remeasurement of net defined obligation	**-**	-
Tax on net defined benefit obligation	**-**	-
Total comprehensive income for the financial year	**1,699**	1,094

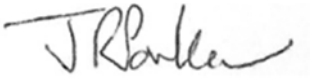
Statement of financial position

as at 31 March 2020

	Note	**2020 £000**	2019 £000
Fixed assets			
Tangible assets	10	**2,047**	2,652
Right of use assets	11	**58**	-
		2,105	2,652
Current assets			
Inventories	12	**5,385**	4,002
Trade and other receivables	13	**7,425**	8,184
Cash and cash equivalents		**1,798**	5,942
		14,608	18,128
Trade and other payables amounts falling due within one year	14	**(10,859)**	(10,653)
Net current assets		**3,749**	7,475
Trade and other payables amounts falling due after more than one year	15	**(28)**	-
Net assets		**5,826**	10,127
Equity			
Called up share capital	16	**-**	-
Retained earnings		**5,826**	10,127
Total shareholders' funds		**5,826**	10,127

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 and signed on its behalf by:



J Parker

Director

21 January 2021

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

	Note	Called up share capital £000	Retained Earnings £000	Total Shareholders' Funds £000
Balance at 1 April 2018		--	9,033	9,033
Total comprehensive income		-	1,094	1,094
Dividends paid	17	-	-	-
Balance at 31 March 2019 and at 1 April 2019		**-**	**10,127**	**10,127**
Total Comprehensive Income		**-**	**1,699**	**1,699**
Dividends paid	17	**-**	**(6,000)**	**(6,000)**
Balance at 31 March 2020		**-**	**5,826**	**5,826**

Notes to the financial statements

1 General information

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

2 Summary of significant accounting policies

The principal 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, unless otherwise stated.

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 in accordance with the Companies Act 2006. The financial statements are prepared in pounds 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.

A prior year restatement has been included within the Income Statement in relation to a reclassification adjustment between cost of sales and operating expenses. This has arisen from indirect costs which were incorrectly classified. Management have reviewed the items classified as cost of sales and completed an exercise which has reclassified £700,000 into operating expenses for 2019.

The Company is a wholly owned subsidiary of Babcock Critical Services 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) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) 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)
d) 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)
e) 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
g) The requirements of paragraph 58 of IFRS 16.
h) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136
i) IAS 7, 'Statement of cash flows'
j) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
k) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
l) 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.

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

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.

2 Summary of significant accounting policies *(continued)*

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

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. 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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 *[include this sentence if relevant]* 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. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Company.

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, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, 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. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made. Any expected loss on a contract is recognised immediately in the income statement.

Intangible assets

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

a) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

b) *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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment (PPE) 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:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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 receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies ***(continued)***

(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 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

The company leases various equipment and vehicles. Rental contracts are typically made for fixed periods but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies ***(continued)***

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the company under residual value guarantees;
- the exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, If the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease.

If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs

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 total lease term. As the discounting is unwound, interest is charged in the income statement and increases the lease liabilities. 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.

As explained in note 2, the company has changed its accounting policy for leases where the company is the lessee. The impact of the change is explained in note 22. Prior to this change, leases of property, plant and equipment where the company, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, were included in creditors: amounts falling due within 12 months and the long-term component was included in creditors: amounts falling due after more than one year. Each lease payment was allocated between the liability and finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there was no reasonable certainty that the company would obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the company as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

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 restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

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. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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 work-in-progress 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 are updated regularly. A provision is made where the operating leases are deemed to be onerous.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

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.

Revenue and profit recognition

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Notes to the financial statements *(continued)*

4 Revenue

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

	2020 £000 Principal activity	2019 £000 Principal activity
By area of activity:		
Rendering of goods and services	**32,533**	29,595
	32,533	29,595

£32,533k (2019: £29,595k) of revenue in the year ending 31 March 2020 originated in the United Kingdom.

5 Operating profit

Operating profit is stated after charging:

	2020 £000	2019 £000
Depreciation of tangible fixed assets	**142**	146
Depreciation of right of use assets	**11**	-
Profit on sale of fixed asset	**424**	-
Inventory charged as an expense	**18,604**	19,441
Fees payable to the Company's auditors;		
- Audit Services	**22**	22
- Non Audit Services	**-**	-

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 financial statements are required to comply with the statutory disclosure requirements.

6 Finance income/(expense)

	2020 £000	2019 £000
Finance income/(expense)**:**		
Bank interest	**3**	(15)
Leases	**(1)**	-
	2	(15)

Notes to the financial statements *(continued)*

7 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:		
Production	**247**	267
Management and administration	**56**	59
	303	326

Their aggregate remuneration comprised:

	2020 £000	2019 £000
Wages and salaries	**9,146**	9,036
Social security costs	**816**	824
Other pension costs	**347**	353
	10,309	10,213

8 Directors' remuneration

All of the directors of the Company are remunerated by other Babcock Group companies in the current and prior year. 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)*

9 Income tax (expense)/credit

Tax expense included in income statement

	2020 £000	2019 £000
Current tax:		
UK Corporation tax on profits for the year	**-**	-
Current tax charge for the year	**-**	-
Deferred tax:		
Origination and reversal of timing differences	**(13)**	(9)
Adjustments in respect of prior years	**(11)**	(1)
Impact of change in UK tax rate	**(7)**	1
Total deferred tax charge	**(31)**	(9)
Tax on profit	**(31)**	(9)

	2020 £000	2019 £000
Profit before income tax	**1,668**	1,085
Profit activities multiplied by standard UK corporation tax rate of 19% (2019: 19%)	**317**	206
Effects of:		
Expenses not deductible for tax	**25**	1
Group relief for nil consideration	**(355)**	(216)
Adjustments in respect of prior years	**(11)**	(1)
Impact of change in UK tax rate	**(7)**	1
Total tax (credit)/charge for the year	**(31)**	(9)

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.

Notes to the financial statements *(continued)*

10 Tangible assets

	Freehold and Long Leasehold Buildings £'000	Plant and equipment £'000	Assets Under Construction £'000	Total £000
Cost				
At 1 April 2019	3,762	1,399	83	5,244
Additions	53	10	-	63
Disposals	(577)	(32)	(49)	(658)
At 31 March 2020	**3,238**	**1,377**	**34**	**4,649**
Accumulated depreciation				
At 1 April 2019	1,480	1,112	-	2,592
Charge for the year	58	84	-	142
Disposals	(115)	(17)	-	(132)
At 31 March 2019	**1,423**	**1,179**	**-**	**2,602**
Net book value				
At 31 March 2020	**1,815**	**198**	**34**	**2,047**
At 31 March 2019	2,282	287	83	2,652

At the year-end, the amount of contractual commitments for the acquisition of property, plant and equipment was £nil (2019: £nil)

Notes to the financial statements *(continued)*

11 Right of use assets

	Plant and equipment £'000	Total £'000
Cost		
At 1 April 2019	69	69
At 31 March 2020	**69**	**69**
Accumulated depreciation		
At 1 April 2019	(0)	(0)
Transition to IFRS 16		
Charge for the year	(11)	(11)
Terminations		
At 31 March 2020	**58**	**58**
Net book value		
At 31 March 2020	**58**	**58**
At 31 March 2019	69	69

In the previous year, the company only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the company's borrowings. For adjustments recognised on adoption of IFRS 16 on 1 April 2019, please refer to note 15.

12 Inventories

	2020 £000	2019 £000
Raw materials and Consumables	1,003	865
Work in Progress	4,222	3,137
Finished goods and goods for resale	160	-
	5,385	**4,002**

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. No inventory amounts were written off or written back during the financial year.

Notes to the financial statements *(continued)*

13 Trade and other receivables

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade receivables	**6,797**	5,630
Deferred tax (note 18)	**77**	46
Other receivables, prepayments and accrued income	**551**	2,508
	7,425	8,184

Amounts owed by group undertakings are unsecured and repayable on demand and are non-interest bearing.

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

14 Trade and other payables amounts falling due within one year

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade creditors	**726**	1,508
Lease liabilities	**30**	-
Amounts owed to parent and group undertakings	**3,052**	5,102
Corporation tax	**1,458**	1,458
Payments received on account	**2,294**	1,348
Accruals and deferred income	**3,299**	1,237
	10,859	10,653

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

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 16(a)).

15 Lease liabilities

The entity leases plant and machinery, vehicles, under non-cancellable operating leases.

Discounted future minimum lease payments are as follows:

	2020 £'000	2019 £'000 On transition
Within one year	**30**	11
In more than one year, but not more than five years	**28**	58
After five years	**-**	-
Carrying value of liability	**58**	69

Notes to the financial statements *(continued)*

16 Called up share capital

	2020	2019
	£	£
Allotted and fully paid		
92 ordinary A shares of £1 each (2019: 92)	92	92
108 ordinary B shares of £1 each (2019: 108)	108	108
40 ordinary C shares of £1 each (2019: 40)	40	40
4 ordinary D shares of £1 each (2019: 4)	4	4
1 ordinary E shares of £1 each (2019: 1)	1	1
1 ordinary F shares of £1 each (2019: 1)	1	1
	246	246

All classes of shares rank pari passu in respect of dividend entitlement and voting rights.

17 Dividends paid

Dividends declared and paid were £6,000,000 (2019: £nil), this is equivalent to £24,390 per share (2019: £nil). There are no plans for a final dividend.

18 Guarantees and financial commitments

a) 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).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

19 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)*

20 Deferred taxation

The major components of the deferred tax assets are recorded as follows.
All deferred tax related to accelerated capital allowances:

Deferred tax (assets)	Accelerated capital allowances £'000
At 1 April 2018:	**(37)**
- Current year credit	**(9)**
- Prior year adjustment	**(1)**
- Impact of change in tax rate	**1**
At 31 March 2019:	**(46)**
At 1 April 2019:	**(46)**
- Current year credit	**(13)**
- Prior year adjustment	**(11)**
- Impact of change in tax rate	**(7)**
At 31 March 2020:	**(77)**

21 Ultimate parent undertaking

The Company's immediate parent company is Babcock Critical Services Limited, a limited company registered in Scotland. 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

22 Effect of adoption of IFRS 16 leases

As indicated in note 11, the company has adopted IFRS 16 Leases retrospectively from 1 April 2019 but has not restated comparatives for the reporting period 31 March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in note 2.

On adoption of IFRS 16, the company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.64%. For leases previously classified as finance leases the entity recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This resulted in an increase in net reserves of £69k. The remeasurement to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

i. Practical expedients applied

In applying IFRS 16 for the first time, the company has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review - there were no onerous contracts as at 1 April 2019;
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

Notes to the financial statements *(continued)*

22 Effect of adoption of IFRS 16 leases *(continued)*

ii. Measurement of lease liabilities

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	69
Effect of discounting	(0)
Change in assessment of lease term	0
IFRS 16 lease liability at 1 April 2019	**69**

iii. Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2018.

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2018.

iv. Adjustments recognised in the statement of financial position of 1 April 2019

The change in accounting policy affected the following items in the statement of financial position on 1 April 2019:

- Right-of-use assets - increase by £69k
- Lease liabilities - increase by £69k