Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2020

Company registration number:

SC046710

Directors and advisors

Current directors
Parker, J R
Taylor, R H
Hayward, M

Company secretary
Babcock Corporate Secretaries Limited

Registered office
110 Queen Street
Glasgow
G1 3HD

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Strategic report

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

Principal activities

The company provides support services operations in the Emergency Services, Mining & Construction and Aviation sectors. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

Review of the business

	2020	2019
	£000	Restated £000
Revenue	**88,044**	98,657
Loss before interest and tax	**(8,000)**	(26,647)
Net assets	**5,895**	11,325

Performance was in line with expectations. The £10.0m decrease in revenue is primarily due to the ending of the British Airways contract at Heathrow airport. The £18.6m decrease in loss before interest and tax is primarily due to the dividend income received of £6m (2019:£nil) offset by a reduction in the carrying value of investment in Babcock Vehicle Engineering Limited of £13.4m (2019:£33.0m) as a result of the impact of COVID-19.

The prior year financial statements have been restated to correct the reversal of a cost of sales accrual which had been double counted, this has resulted in an increase in cost of sales and loss before interest and tax of £743,000 and a reduction in net assets of £601,000 and to reflect the change in treatment of KPI failures previously recognised as cost of sales, this resulted in a reduction of revenue and cost of sales of £968,000 (see Note 2 for further details).

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 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 overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain quality staff. The directors manage this risk by meeting on a regular basis to discuss these risks. 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.

The primary contracts held by the Company are long term in nature and provide essential support service operations principally in the emergency services sector. These services relate to the provision of maintenance and fleet management support services. Due to the nature of the contracts in place there has been minimal impact on the company as a result of Covid-19. During the initial periods of lockdown operations have remained at normal levels. Fleet management and the availability of emergency services vehicles remain as important as ever, and this is expected to remain the situation in future.

Strategic report *(continued)*

Future developments

On 30 June 2019 the company's fleet management contract with British Airways at Heathrow Airport ended with the relevant staff transferring to the new provider. On 31 December 2019 the company exited the Mining and Construction sector. The company continues to pursue and develop opportunities within the various sectors of fleet management support and is confident that further revenue growth will be achieved to replace the decline in the Aviation and exit from the Mining and Construction sectors.

Key performance indicators

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

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles; being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs 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 be satisfied with the level of performance.

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. 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, regular and frequent engagement continued with all customers to ensure effective operational running of the contracts. This engagement with customers has further increased to ensure a joint approach to responding to COVID-19 was achieved.

On behalf of the board

J R Parker
Director

25 February 2021

Directors' report

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

Dividends

An interim dividend of £nil was paid in the year (2019: £nil). No final dividend for the year ended 31 March 2020 has been proposed by the directors (2019: £nil).

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)*

Financial risk management *(continued)*

Interest rate risk
The company has interest-bearing assets. Cash balances accrue interest at a floating rate and intercompany loans accrue interest at a fixed rate. The company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors

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

J R Parker
R H Taylor
S M White (Resigned 20 April 2020)
S West (Resigned 8 November 2019)
M Hayward

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.

Directors' report *(continued)*

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.

Going concern

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed.

In coming to this conclusion we have also fully considered the impact of Coivd-19 on the Company and assessed this as immaterial given the nature of its activities and contracts as described in the strategic report above.

Statement of directors' responsibilities in respect of the financial statements

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 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 these 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.

Directors' report *(continued)*

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' 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.

Statement of engagement with customers, employees, suppliers and others in a business relationship with the Company

The Directors have regard to the need to foster the Company's business relationship with customers, employees, suppliers and others, and the effect of that regard, including on principal decisions taken by the Company during the financial year. Please refer to the Company's Section 172(1) statement in the Strategic report.

Reappointment of auditors

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

On behalf of the board

J R Parker
Director

25 February 2021

Independent auditors’ report to the members of Babcock Critical Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Critical Services 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 and financial statements (the “Annual Report”), which comprise: the Statement of Financial Position 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.

Independent auditors’ report to the members of Babcock Critical Services Limited *(continued)*

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 in respect of the financial statements, 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.

Independent auditors' report to the members of Babcock Critical Services Limited *(continued)*

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.

Sasha Lewis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

26 February 2021

Babcock Critical Services Limited

Income Statement

for the year ended 31 March 2020

	Note	2020 £000	2019 Restated £000
Revenue	4	**88,044**	98,657
Cost of sales		**(80,302)**	(91,383)
Gross profit		**7,742**	7,274
Administrative expenses		**(8,441)**	(8,336)
Other operating income	5	**181**	7,439
Amounts written off investments	5	**(13,482)**	(33,023)
Operating loss	5	**(14,000)**	(26,646)
Income from shares in group undertakings		**6,000**	-
Loss before interest and taxation		**(8,000)**	(26,646)
Finance income	6	**428**	654
Finance expenses	6	**(870)**	(103)
Other finance income - pensions	25	**92**	81
Loss before taxation		**(8,350)**	(26,014)
Income tax expense	9	**(235)**	(1)
Loss for the financial year		**(8,585)**	(26,015)

All of the above results derive from continuing operations.

Statement of Comprehensive Income

for the year ended 31 March 2020

	Note	2020 £000	2019 Restated £000
Loss for the financial year		**(8,585)**	(26,015)
Other comprehensive income:			
Items that will not be subsequently reclassified to income statement:			
Gain/(loss) on re-measurement of net defined benefit obligation	25	**3,959**	(56)
Tax on defined benefit obligation	9	**(805)**	3
Total other comprehensive income/(loss)		**3,154**	(53)
Total comprehensive loss		**(5,431)**	(26,068)

Babcock Critical Services Limited

Statement of Financial Position

as at 31 March 2020

	Note	**2020 £000**	2019 Restated £000
Fixed Assets			
Intangible assets	10	**556**	791
Tangible fixed assets	11	**8,623**	6,854
Right-of-use assets	12	**8,418**	-
Investments	13	**19,848**	33,330
Pension asset	25	**7,829**	2,631
		45,274	43,606
Current assets			
Inventories	14	**1,661**	1,857
Trade and other receivables	15	**52,528**	54,676
Cash and cash equivalents	16	**11,658**	31,056
		65,847	87,589
Current liabilities			
Trade and other payables	17	**(94,519)**	(118,259)
Lease liabilities	18	**(948)**	-
Net current liabilities		**(29,620)**	(30,670)
Total assets less current liabilities		**15,654**	12,936
Lease liabilities	18	**(7,903)**	-
Provisions for liabilities	19	**(1,856)**	(1,611)
Net assets		**5,895**	11,325
Equity			
Called up share capital	21	**19,908**	19,908
Accumulated Losses		**(14,013)**	(8,583)
Total shareholders' funds		**5,895**	11,325

The notes on pages 14 to 40 are an integral part of these financial statements.

The financial statements on pages 11 to 40 were approved by the Board of Directors and signed on its behalf by:

J R Parker
Director
25 February 2021

Statement of Changes in Equity

for the year ended 31 March 2020

	Called-up share capital £000	Retained Earnings/ (Accumulated Losses) £000	Total Shareholders' Funds £000
Balance at 1 April 2018	19,908	17,485	37,393
Loss for the financial year (restated)	-	(26,015)	(26,015)
Other comprehensive loss	-	(53)	(53)
Total comprehensive loss for the year (restated)	-	(26,068)	(26,068)
Balance at 31 March 2019 (restated)	19,908	(8,583)	11,325
Transition to IFRS 16	**-**	**1**	**1**
Balance at 1 April 2019	**19,908**	**(8,582)**	**11,326**
Loss for the financial year	**-**	**(8,585)**	**(8,585)**
Other comprehensive income	**-**	**3,154**	**3,154**
Total comprehensive income for the year	**-**	**(5,431)**	**(5,431)**
Balance at 31 March 2020	**19,908**	**(14,013)**	**5,895**

Notes to the financial statements

1 General information

Babcock Critical Services Limited is a private company limited by shares, which is incorporated and domiciled in Scotland, UK. The address of the registered office is 110 Queen Street, Glasgow, G1 3HD.

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 except IFRS16 which has been adopted in the year, where comparatives have not been restated following the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS16 is recognised in retained earnings at the initial date of application.

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 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 prior year financial statements have been restated to correct the reversal of a cost of sales accrual which had been double counted, this has resulted in a restatement to the Income Statement increasing cost of sales and the loss before interest and tax by £743,000 and reducing the Income tax expense by £141,000, thus reducing the net assets of the Company by £601,000. The corresponding entry reduced Trade and other payables by £601,000.

Additionally in the 2019/20 financial year, there has been a change in treatment of KPI failures to treat them as a reduction in revenue to fully comply with IFRS 15, previously these had been recognised as cost of sales. This resulted in a reduction of revenue and a reduction in cost of sales of £968,000.

The company is a wholly owned subsidiary of Babcock Critical Assets Holdings LLP and of its ultimate parent, Babcock International Group PLC, a company incorporated in England. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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)

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

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), 16, 38, 111, and 134-136

g) IAS 7, ‘Statement of cash flows’

h) Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’

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.

k) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, ‘impairment of assets’ (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management’s approach to determining these amounts).

Going concern

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

In coming to this conclusion we have also fully considered the impact of Coivd-19 on the Company and assessed this as immaterial given the nature of its activities and contracts as described in the strategic report above.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

The Company has adopted the simplified transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. An independent valuer was not used. 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;
- 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(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, 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. 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.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

(d) Costs of obtaining a contract
Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in capitalised contract costs and amortised over the life of the contract, provided that the contract is expected to result in future net cash inflows.

(e) 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.

(f) Principal versus agent considerations
The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Company controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a contract by contract basis.

Intangible assets

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Intangible Assets *(continued)*

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 life.

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:

Land	Not depreciated
Freehold property	2% to 8% straight line
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3% straight line

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.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Inventory

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.

Financial instruments

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and amounts owned by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

2 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities
Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Such liabilities are subsequently carried at amortised cost using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 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

2 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

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 benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

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.

Lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate where the interest rate implicit in the lease is not available.

Provisions for liabilities

A provision is recognised in the Statement of financial position 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. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the company incurring further costs.

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

Dividends

Dividends are recognised as a liability in the company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

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:

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.

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 25 for the disclosures of the defined benefit pension scheme.

Impairment of investments in subsidiaries

The Company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the Company to estimate the value in use which is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. See note 15 for the disclosures of the carrying value of investments.

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**	2019 Restated £000
By area of activity:		
Rendering of services	**88,044**	98,657
	88,044	98,657

All the revenue in the year ended 31 March 2020 and year ended 31 March 2019 originated in the United Kingdom.

5 Operating loss

Operating loss is stated after (crediting)/charging:

	2020 **£000**	2019 £000
Gain on disposal of property, plant and equipment	**(181)**	(7,439)
Depreciation of property, plant and equipment (note 11)	**784**	807
Right-of-use asset depreciation (note 12)	**1,143**	-
Amortisation of intangible assets (note 10)	**235**	373
Operating lease charges – property and land	**-**	1,133
Operating lease charges – other	**-**	1,550
Inventory charged to income statement	**8,587**	9,688
Audit fees payable to the company's auditors	**30**	30

The gain on disposal of property, plant and equipment in 2019 and 2020 relates to the disposal of the company's workshop at Camberwell.

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.

Amounts written off investments charged to the Income Statement was as follows:

	2020 **£000**	2019 £000
Reduction in carrying value of investment in Babcock Vehicle Engineering Limited.	**(13,482)**	(33,023)
	(13,482)	(33,023)

Notes to the financial statements *(continued)*

6 Finance income and expenses

	2020	2019
	£000	£000
Finance income:		
Bank Interest	**-**	11
Foreign exchange	**16**	205
Loan interest receivable from group undertakings	**412**	438
	428	654

	2020	2019
Finance expenses:	**£000**	£000
Bank Interest	**(86)**	-
Lease interest	**(425)**	-
Foreign exchange	**(359)**	(103)
	(870)	(103)

7 Staff costs

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

	2020	2019
	Number	Number
By activity:		
Operations	**546**	649
Management and administration	**19**	27
	565	676

Their aggregate remuneration comprised:

	2020	2019
	£000	£000
Wages and salaries	**21,904**	26,746
Social security costs	**2,307**	2,724
Other pension costs	**1,743**	3,141
	25,954	32,611

Included in other pension costs are £613,000 (2019: £1,346,000) in respect of the defined benefit schemes and £1,130,000 (2019: £1,795,000) 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.

Notes to the financial statements *(continued)*

8 Directors' remuneration

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

	2020	2019
The remuneration of the directors which was paid by the company was as follows:	**£000**	£000
Emoluments (including benefits in-kind)	**-**	430
Defined contribution pension scheme	**-**	42
	-	472

During the year none of the directors received any remuneration in respect of services to this company, as their services were considered incidental to their other services in the Group (2019: two directors received remuneration in respect of services to this company.)

The above amounts for remuneration include the following in respect of the highest paid director:

	2020	2019
	£000	£000
Emoluments (excluding pension contributions)	**-**	221
Defined contribution pension scheme	**-**	25

The highest paid director is remunerated by other Babcock Group companies (2019: the highest paid director exercised shares under long term incentive plans).

9 Income tax expense

Tax expense / (credit) included in income statement

	2020 £000	2019 Restated £000
Current tax:		
UK Corporation tax on profits for the year	**-**	56
Current tax charge for the year	**-**	56
Deferred tax:		
Origination and reversal of timing differences	**162**	(10)
Adjustment in respect of prior years	**45**	(39)
Impact of change in UK tax rate	**28**	(6)
Total deferred tax charge/(credit) (note 20)	**235**	(55)
Total tax charge for the year	**235**	1

Notes to the financial statements *(continued)*

9 Income tax expense *(continued)*

Tax expense/(income) included in other comprehensive income

	2020 £'000	2019 £'000
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	**752**	(11)
- Impact of change in UK tax rates	**53**	8
Tax expense / (income) included in other comprehensive income	**805**	(3)

Tax expense for the year is higher (2019: higher) 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 Restated £000
(Loss) before taxation	**(8,350)**	(26,013)
(Loss) multiplied by standard UK corporation tax rate of 19% (2019: 19%)	**(1,586)**	(4,942)
Effects of:		
Expenses not deductible for tax/income not chargeable to tax	**1,478**	4,988
Group relief for nil consideration	**270**	-
Adjustment in respect of prior years	**45**	(39)
Impact of change in UK tax rate	**28**	(6)
Total tax charge for the year	**235**	1

In the 2019 UK 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 Intangible assets

	Computer Software £000	Research and Development £000	Total £000
Cost			
At 1 April 2019	1,541	1,221	2,762
Additions	-	-	-
Disposals	(319)	(380)	(699)
At 31 March 2020	**1,222**	**841**	**2,063**
Accumulated amortisation			
At 1 April 2019	(750)	(1,221)	(1,971)
Amortisation	(235)	-	(235)
Disposals	319	380	699
At 31 March 2020	**(666)**	**(841)**	**(1,507)**
Net book value			
At 31 March 2020	**556**	**-**	**556**
At 31 March 2019	791	-	791

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

11 Tangible fixed assets

	Land £000	Buildings & Leasehold Improvements £000	Plant and equipment £000	Total £000
Cost				
At 1 April 2019	2,773	3,186	11,653	17,612
Additions	-	29	2,633	2,662
Disposals	-	(126)	(3,039)	(3,165)
At 31 March 2020	**2,773**	**3,089**	**11,247**	**17,109**
Accumulated depreciation				
At 1 April 2019	-	(1,320)	(9,438)	(10,758)
Charge for the year	-	(243)	(541)	(784)
Disposals	-	91	2,965	3,056
At 31 March 2020	**-**	**(1,472)**	**(7,014)**	**(8,486)**
Net book value				
At 31 March 2020	**2,773**	**1,617**	**4,233**	**8,623**
At 31 March 2019	2,773	1,866	2,215	6,854

11 Tangible fixed assets *(continued)*

The net book value of leasehold improvements (from the Buildings and Leasehold Improvements classification above) comprises:

	2020	2019
	£000	£000
Long leasehold improvements	**1,129**	1,275
Net book value	**1,129**	1,275

Contractual commitments for property, plant and equipment at year end is £nil (2019: £nil).

12 Right-of-use assets

	Property	**Plant and equipment**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 April 2019	-	-	-
Transition to IFRS 16	1,840	418	2,258
Additions	6,294	1,091	7,385
Terminations	-	(149)	(149)
At 31 March 2020	**8,134**	**1,360**	**9,494**
Accumulated depreciation			
At 1 April 2019	-	-	-
Transition to IFRS 16	-	-	-
Charge for the year	(794)	(349)	(1,143)
Terminations	-	67	67
At 31 March 2020	**(794)**	**(282)**	**(1,076)**
Net book value			
At 31 March 2020	**7,340**	**1,078**	**8,418**
At 31 March 2019	-	-	-

13 Investments

	2020 **Shares in group undertakings** **£000**	2019 Shares in group undertakings £000
Cost		
At 1 April	**33,330**	66,353
Impairments charged to the income statement	**(13,482)**	(33,023)
Carrying amount at 31 March	**19,848**	33,330

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the investments are outlined in note 26.

14 Inventories

	2020 **£000**	2019 £000
Finished goods and goods for resale	**1,661**	1,857
	1,661	1,857

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. Inventories are stated after provision for impairment of £231,931 (2019: £327,374).

15 Trade and other receivables

	2020 **£000**	2019 £000
Amounts falling due within one year:		
Trade receivables	**11,435**	10,594
Contract assets	**6,729**	5,392
Amounts owed by group undertakings	**33,820**	36,398
Other receivables and prepayments	**544**	2,292
	52,528	54,676

Amounts owed by group undertakings are unsecured and repayable on demand. Loan interest receivable from group undertakings is £412,000 (2019: £412,000). The interest rate on the loan of £15,000,000 is 2.75%. Other amounts owed by group undertakings are interest free.

Trade receivables are stated after expected credit losses of £nil (2019: £101,000).

Notes to the financial statements *(continued)*

15 Trade and other receivables *(continued)*

	Contract asset £'000
At 31 March 2019	5,392
Transfers from contract assets recognised at the beginning of the year to receivables	(5,392)
Increase due to work done not invoiced	6,729
At 31 March 2020	**6,729**

16 Cash and cash equivalents

The company is a member of a group-wide notional cash pool arrangement which allows individual accounts to become overdrawn, with a total gross overdue position allowed of £360m and a net overdue position allowed of £50m. The group performs an annual cash sweep process to settle all material (over 1 million in the relevant currency of the account) overdrawn accounts.

The company has five accounts within this cash pool arrangement and the net position on these accounts has been presented in the company's Statement of Financial Position as the company has the legal right and intention to net settle such accounts with no restrictions.

Although the cash sweep did not occur at the financial year end date in 2020, it is the Directors intention for the cash sweep date to occur soon after the financial year end in future, which was the process in previous years.

The Directors therefore believe it is appropriate to present the net balance in the Statement of Financial Position in accordance with IAS 32, as it is their intent to net settle the financial year end balances and have additionally disclosed the gross balances below for transparency and to aid the users of the financial statements.

	2020 £'000	2019 £'000
Cash at bank and in hand	18,329	34,868
Bank overdraft	(6,671)	(3,812)
Cash and cash equivalents	11,658	31,056

Notes to the financial statements *(continued)*

17 Trade and other payables

	2020 £000	2019 Restated £000
Amounts falling due within one year:		
Trade payables	**5,903**	7,246
Amounts owed to parent and group undertakings	**77,836**	94,210
Other taxation and social security	**1,181**	2,969
UK corporation tax payable	**56**	56
Accruals	**8,656**	11,159
Contract liabilities	**887**	2,619
	94,519	118,259

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 23).

	Contract liabilities £'000
At 31 March 2019	2,619
Revenue recognised that was included in contract liabilities at the beginning of the year	(1,732)
At 31 March 2020	**887**

18 Lease liabilities

The entity leases various premises under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases. Discounted future minimum lease payments are as follows:

	2020 £'000	On transition to IFRS 16 £'000
Within one year	**948**	344
In more than one year, but not more than five years	**7,903**	1,913
After five years		
Carrying value of liability	**8,851**	2,257

The weighted average incremental borrowing rate applied to the lease liabilities at the date of transition was 4.800%.Cash payments for leases this year were £1,146,000 (2019: £1,066,000).

Notes to the financial statements *(continued)*

18 Lease liabilities *(continued)*

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	1,177
Effect of discounting	(648)
Change in assessment of lease terms and conditions	1,728
IFRS 16 lease liability at 1 April 2019	**2,257**

19 Provisions for liabilities

	Dilapidations provision £000	**Deferred taxation £000**	**Loss provision £000**	**Total £000**
At 1 April 2019	**402**	**642**	**567**	**1,611**
(Credited)/charged to the income statement	(228)	235	(567)	(560)
Charged to other comprehensive income	-	805	-	805
At 31 March 2020	**174**	**1,682**	**-**	**1,856**

Dilapidation provisions

Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

Loss provision

The loss provision reserve captures contracts that have become loss making during the year.

Notes to the financial statements *(continued)*

20 Deferred taxation

The major components of the deferred tax liabilities are recorded as follows:

Deferred tax liabilities	Pension (asset)/liability £000	Accelerated capital allowances £000	Total £000
At 1 April 2018:	**515**	**185**	**700**
- (Credited)/charged to the income statement	(65)	10	(55)
- (Credited)to other comprehensive income	(3)	-	(3)
At 1 April 2019:	**447**	**195**	**642**
- Charged to the income statement	235	-	235
- Charged to other comprehensive income	805	-	805
At 31 March 2020:	**1,487**	**195**	**1,682**

21 Called up Share capital

	2020 £000	2019 £000
Allotted and fully paid		
19,908,300 ordinary shares of £1 each (2019: 19,908,300)	19,908	19,908

22 Dividends

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

23 Contingent liabilities

At the year end 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 at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil million (2019: £nil million).

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.

Notes to the financial statements *(continued)*

24 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.

During the prior year the company also entered into transactions in the ordinary course of business with Cura Classis UK Limited, a company which is 48% owned by Babcock International Group PLC.

There were no transactions entered into and no trading balances outstanding at 31 March 2020 as Cura Classis UK Limited has been liquidated.

Transactions entered into and trading balances outstanding at 31 March 2019 are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Cura Classis UK Limited	1,614	-	-	-

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

25 Pension commitments

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, at a cost of £1,130,000 (2019: £1,795,000). The company is also a contributing employer to a defined benefit scheme (the “Babcock International Group Pension Scheme”). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

25 Pension commitments *(continued)*

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

In the last financial year, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active deferred members of the scheme, retaining a final salary link.

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2020 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2019. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2020 %**	2019 %	2018 %
Rate of increase in salaries	**2.0**	2.3	2.2
Rate of increase in pension payment	**2.6**	3.0	2.9
Discount rate	**2.4**	2.4	2.6
Inflation	**1.7**	2.1	2.0

The expected total employer contributions to be made by participating employers to the scheme in 2020/21 are £24.6m. The future service rate is 51.1%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £24.6m is £12.5m of deficit recovery payments. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2020 Years	2019 Years	2018 Years
Life expectancy from age 65 (male age 65)	**22.1**	21.7	22.2
Life expectancy from age 65 (male age 45)	**22.7**	22.7	23.2

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

The changes to the Babcock International Group Plc balance sheet at 31 March 2020 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2020 £000	**Income statement 2020 £000**
Initial assumptions	**1,276,793**	**4,113**
Discount rate assumptions increased by 0.5%	(86,694)	(3,655)
Discount rate assumptions decreased by 0.5%	86,694	2,770
Inflation rate assumptions increased by 0.5%	51,838	1,745
Inflation rate assumptions decreased by 0.5%	(46,497)	(1,585)
Total life expectancy increased by half a year	29,494	787
Total life expectancy decreased by half a year	(29,494)	(787)
Salary increase assumptions increased by 0.5%	6,895	392
Salary increase assumptions decreased by 0.5%	(6,895)	(393)

The weighted average duration of cash flows (years) was 15.

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2020 were:

Fair value of plan of assets	**2020**	2019
	£'000	£'000
Equities	**17,851**	444,412
Property	**136,091**	136,657
Absolute return and multi strategy funds	**87,564**	16,135
Bonds	**588,848**	326,937
Matching assets	**622,665**	544,834
Scheme assets	**1,453,019**	1,468,975
Active position on longevity swaps	**(65,642)**	(60,111)
Total assets	**1,387,377**	1,408,864
Present market value of liabilities - funded	**(1,276,793)**	(1,359,140)
Pension surplus	**110,584**	49,724

All the assets of the scheme are quoted except for the longevity swaps.

The longevity swaps have been valued, in 2020, in line with assumptions that are consistent with the requirements of IFRS 13.

The scheme does not invest directly in assets or shares of Babcock International Group Plc.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group Plc	2020 £000	2019 £000
Current service cost	**6,693**	9,615
Incurred expenses	**1,970**	1,965
Past service cost	**-**	13,646
Settlement	**-**	220
Total included within operating profit	**8,663**	25,446
Net interest income	**(1,300)**	(1,523)
Total charged to the income statement	**7,363**	23,923

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £613,000 for service cost and incurred expenses (2019: £1,346,000), and net interest income of £92,000 (2019: net interest income of £81,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	2020 £000	2019 £000
Actuarial gain/(loss)recognised in the SOCI	**56,807**	(4,076)
Experience (loss)/gain	**(6,371)**	3,181
Other losses	**(4,088)**	(8,667)
	46,348	(9,562)

The actuarial gain recognised in the SOCI in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £3,959,000 (2019: loss of £56,000).

The equity investments and bonds are valued at bid price.

Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc	2020 £000	2019 £000
At 1 April	**1,408,864**	1,440,828
Interest income	**32,902**	36,495
Employee contributions	**140**	272
Employer contributions	**21,874**	23,009
Benefits paid	**(80,602)**	(102,320)
Settlement	**-**	(2,761)
Actuarial gain	**4,199**	13,341
At 31 March	**1,387,377**	1,408,864

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities in Babcock International Group plc	**2020 £000**	2019 £000
At 1 April	**1,359,140**	1,380,628
Service cost	**6,693**	9,615
Incurred expenses	**1,970**	1,965
Interest on liabilities	**31,602**	34,972
Employee contributions	**140**	272
Actuarial loss/(gain) – demographics	**6,350**	(21,380)
Actuarial (gain)/loss – financial	**(54,871)**	47,464
Experience losses/(gains)	**6,371**	(3,181)
Benefits paid	**(80,602)**	(102,320)
Settlement	**-**	(2,541)
Past service cost	**-**	13,646
At 31 March	**1,276,793**	1,359,140

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £7,829,000 (2019: asset of £2,631,000).

26 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the company are as listed below:

Company Name	Country	Direct %	Ultimate%
Chart Services Limited	Scotland	100.0%	100.0%
Transfleet Distribution Limited	England	100.0%	100.0%
Transfleet Truck Rentals Limited	England	100.0%	100.0%
Chart Distribution Services Limited	England	0%	100.0%
Municipal Vehicle Hire Limited	England	0%	100.0%
Chart Storage & Transportation Limited	England	0%	100.0%
Babcock Vehicle Engineering Limited	England	100.0%	100.0%

Notes to the financial statements *(continued)*

26 Subsidiary, associate and Joint Venture undertakings *(continued)*

The registered office of all undertakings with the exception of Chart Services Limited is 33 Wigmore Street, London, W1U 1QX, England. The registered office of Chart Services Limited is Dwf Llp, 110 Queen Street, Glasgow, Scotland. All subsidiary undertakings are incorporated and operate in the United Kingdom.

27 Ultimate parent undertaking

The company‘s immediate parent company is Babcock Critical Assets Holdings LLP, a limited liability partnership 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