Babcock Mission Critical Services Onshore Limited

Annual report and financial statements

for the year ended 31 March 2022

Registered number: 03776034

COMPANY INFORMATION

Directors	C Barker S Ward
Company Secretary	Babcock Corporate Secretaries Limited
Registered Number	03776034
Registered Office	33 Wigmore Street London W1U 1QX
Independent Auditor	Deloitte LLP 1 New Street Square London EC4A 4HQ

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Strategic report for the year ended 31 March 2022

The Directors present their Strategic report on the Company for the year ended 31 March 2022.

Principal activities

The principal activity of the Company continued to be the provision and operation of twin-engine helicopters. These operate on long-term sole-use contracts primarily providing emergency medical support and police support services. The majority of revenue is generated from fixed fees received for the availability of aircraft with additional variable revenue generated based on the flying activity of the aircraft.

Business review

	2022	2021
	£'000	£'000
		*Restated
Revenue	**35,852**	34,078
Loss/profit for the financial year	**(697)**	34,342

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Over the course of the year, the Company's core business activities continued to perform in line with expectations. The Company operates at 20 bases around the UK and employed an average of 212 (2021: 225) staff during the year. The company continues to support a number of air ambulance charities and Police Scotland with the operation and maintenance of aircraft for its customers. The Company has aircraft, employer and aviation liability insurance policies (including civil liability cover) and life insurance policies for employees in place that are consistent with market practices and in compliance with the requirements set forth in the contract we have with Police Scotland.

The Company's revenue has increased by 5% mainly due to increased activity from helicopter provision services. During the year the company renewed contracts with East Anglian Air Ambulance to 2028 and Northwest Air Ambulance to 2031.

Cost of sales has decreased by 17% from 2021 and the Company continues to work with key suppliers to continue to manage this element of the Company's cost base. Surplus aircraft assets were identified, and sale of these assets completed during both 2021 and 2022, this has resulted in a reduced maintenance cost burden in 2022. Additionally, as part of the business profitability assessments during 2021, impairment positions were recognised in relation to both owned and leased aircraft, resulting in a reduction of depreciation charges during the year 2022.

The Company remains in a net current liability position at £4,821,000 (2021: £5,436,000) however has increased its cash balances held by 65% to £4,604,000 (2021: £2,794,000). The company has also reduced its intercompany receivables by £314,000 during the year.

The Directors are positive about the future growth of the business and operating within a larger business as part of Babcock International Group PLC.

Strategic report for the year ended 31 March 2022 *(continued)*

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2022.

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

The operation of aircraft inherently involves a degree of risk. Due to the critical nature of the services the Company provides, this risk is often compounded through low altitude flying in adverse climatic or operational conditions or terrains. The Company has made significant investments in safety systems combined with extensive communications to mitigate this risk as far as possible. This includes safety work streams to identify areas for sharing best practices and improvement opportunities within the domains of safety culture, organisation, people, systems and controls and crew training and monitoring.

The key financial risks and uncertainties affecting the Company are considered to be related to price risk, credit risk and interest rate risk. The Directors manage this risk by meeting on a regular basis to discuss these risks and mitigation procedures.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 76 to 87 of the annual report of Babcock International Group PLC for the year ended 31 March 2022, which does not form part of this report.

Key performance indicators

The following financial and non-financial key performance indicators (KPIs) have been identified. These reflect the internal benchmarks that are used to measure the success of the business and strategy.

	2022	2021	
Revenue Growth from continuing operations	**5.2%**	(12.5)%	Increase in turnover when compared to that in the previous year. **£5.1m increase in ongoing Air Ambulance and Police contracts. £3.3m decrease due to ceased contracts.**
Operating Return on Revenue from continuing operations (ORR)	**3.5%**	105.7%	Operating profit expressed as a percentage of revenue. **Prior year is impacted by £56m of income from a subsidiary offset by £15m of exceptional expenses**.
Availability	**98.73%**	97.68%	Availability is calculated by using downtime vs. duty period for customers. **Target of 98% is a contractual requirement for 3 customers at present.**

The growth and performance of Aviation, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 48 to 49 of the annual report of Babcock International Group PLC for the year ended 31 March 2022, which does not form part of this report.

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) Statement and Stakeholder engagement

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

a) the likely consequences of any decision in the long term,
b) the interests of the company's employees,
c) the need to foster the company's business relationships with suppliers, customers and others,
d) the impact of the company's operations on the community and the environment,
e) the desirability of the company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly as between members of the company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53, and 101 of the annual report for the year ended 31 March 2022 of Babcock International group PLC, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

Why they matter to us:

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

What matters to them:

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How the Company engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership programme
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) Statement and Stakeholder engagement *(continued)*

Suppliers

Why they matter to us

To support our business operations and strategy, we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and, by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customer. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International Group PLC for the year ended 31 March 2022.

What matters to them
- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How the Company engages
- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and ‘lunch and learn’ sessions
- Supplier due diligence

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) Statement and Stakeholder engagement *(continued)*

Employees

Why they matter to us

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Group-wide People Strategy as described on pages 19 and 63 - 66 of the annual report of Babcock International Group PLC for the year ended 31 March 2022.

What matters to them

- Remuneration and reward
- Professional development
- The Company's aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

How the Company engages

- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and board visits
- Free confidential employee support helpline

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) Statement and Stakeholder engagement *(continued)*

Communities

Why they matter to us

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities and helping them rebuild following COVID 19. We have a responsibility to ensure that we support the communities in which we operate, both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. The Company's major sites of operation make it one of the largest employers in the local areas and it remains important for us to add value to these communities.

What matters to them

- Employment and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for armed forces community
- Community engagement

How the Company engages

- Sponsorship and donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Employer of service leavers, veterans and reserves
- Engagement with local community programmes

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below:

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040.
2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.
3. We will ensure the safety and wellbeing of all our people.
4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.
5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information is included on page 54 of the annual report of Babcock International Group PLC for the year ended 31 March 2022, which does not form part of this report.

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) Statement and Stakeholder engagement *(continued)*

These activities form part of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International Group PLC for the year ended 31 March 2022, which does not form part of this report.

This report was approved by the board on 15 December 2023 and signed on its behalf

S Ward

Director

Directors' report for the year ended 31 March 2022

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2022.

Dividends

No interim dividend payments have been made for the financial year (2021: £nil). No final dividend for the year ended 31 March 2022 is proposed by the Directors (2021: £nil).

Directors and their interests

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

C Barker (appointed 28 September 2023)
H Belmore (resigned 28 September 2023)
P Craig (resigned 15 February 2023)
S Ward

The Board is not aware of any contract of significance in relation to the Company in which any Director has, or has had, a material interest.

Future developments

We remain confident that the Company will continue to benefit from the strength of its relationships with its existing long-term customers.

The Directors are confident about the future trading prospects of the Company due to its ongoing contracts, order book and market opportunities.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Directors' and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position of £4.8m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from ultimate parent company Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Directors' report for the year ended 31 March 2022 *(continued)*

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discussed in detail within the annual report for the year ended 31 March 2022 of Babcock International Group PLC, which does not form part of this 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.

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2022 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic Report on pages 5 and 6.

Employees

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 64 and 107 of the annual report for the year ended 31 March 2022 of Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 7 in the Strategic Report.

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 level practicable.

Directors' report for the year ended 31 March 2022 *(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.

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information. This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

Appointment of auditors

At the 2022 Annual General meeting of Babcock International Group PLC, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the Group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 15 December 2023 and signed on its behalf

S Ward

Director

Directors' Responsibility statement

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, Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the members of Babcock Mission Critical Services Onshore Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Babcock Mission Critical Services Onshore Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of Babcock Mission Critical Services Onshore Limited

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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.

AUDITOR'S 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 auditor's 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 auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Independent auditor's report to the members of Babcock Mission Critical Services Onshore Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax and pension legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists, including tax, valuation, pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

Revenue and margin recognition on key long-term contracts with significant management judgment

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- Enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

Independent auditor's report to the members of Babcock Mission Critical Services Onshore Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Babcock Mission Critical Services Onshore Limited

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
15 December 2023

Income statement for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000 *Restated
Revenue	4	**35,852**	34,078
Cost of revenue		**(29,276)**	(35,086)
Gross profit/(loss)		**6,576**	(1,008)
Loss on sale of tangible fixed assets		**(47)**	(1,258)
Administration and distribution expenses		**(4,986)**	(3,133)
Exceptional administrative expenses	5	**(303)**	(15,417)
Income from shares in group undertakings		-	56,831
Operating profit	6	**1,240**	36,015
Finance income	7	**-**	3
Finance costs	7	**(712)**	(816)
Profit before taxation		**528**	35,202
Income tax expense	10	**(1,225)**	(860)
Loss/profit for the financial year		**(697)**	34,342

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

All of the above results derive from continuing operations.

The notes on pages 22 to 54 form an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 March 2022

	2022 £'000	2021 £'000 *Restated
Loss/profit for the financial year	**(697)**	34,342
Other comprehensive income/(expense):		
Items that may be subsequently reclassified to income statement:		
Fair value adjustment of foreign exchange hedges	**930**	(285)
Tax impact of movement in derivatives	**(177)**	177
Total comprehensive income for the year	**56**	34,234

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

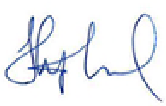
Statement of financial position as at 31 March 2022

	Note	2022 £'000	*Restated 2021 £'000
Non-current assets			
Intangible assets	11	**5**	25
Investments	12	**-**	-
Property, plant and equipment	13	**35,481**	39,228
Right-of-use assets	14	**17,771**	14,981
Trade and other receivables	16	**10,311**	10,311
		63,568	64,545
Current assets			
Inventories	15	**2,123**	2,133
Trade and other receivables	16	**5,621**	4,836
Cash and cash equivalents		**4,604**	2,794
		12,348	9,763
Current liabilities			
Trade and other payables	17	**(7,283)**	(8,652)
Other financial liabilities	18	**(370)**	(343)
Lease liabilities	14	**(7,565)**	(5,766)
Provisions for liabilities	19	**(1,951)**	(438)
Net current liabilities		**(4,821)**	(5,436)
Total assets less current liabilities		**58,747**	59,109
Non-current liabilities			
Trade and other payables	17	**(223)**	(179)
Other financial liabilities	18	**(198)**	(588)
Lease liabilities	14	**(15,307)**	(16,864)
Provisions for liabilities	19	**(1,766)**	(1,683)
Deferred tax liabilities	10	**(5,635)**	(4,233)
Net assets		**35,618**	35,562
Equity			
Called up share capital	22	**1,667**	1,667
Revaluation reserve		**51**	51
Hedging reserve		**-**	(753)
Retained earnings		**33,900**	34,597
Total shareholders' funds		**35,618**	35,562

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

The notes on pages 22 to 54 are an integral part of these financial statements.

The financial statements on pages 19 to 54 were approved and authorised for issue by the board of directors and signed on its behalf by:



S Ward
Director

Statement of changes in equity as at 31 March 2022

	Called up share capital £'000	Revaluation reserve £'000	Hedging reserve £'000 *Restated	Retained earnings £'000 *Restated	Total shareholders' funds £'000 *Restated
At 1 April 2020	**1,667**	**51**	**(645)**	**4,111**	**5,184**
Prior year restatement	-	-	-	(3,856)	(3,856)
At 1 April 2020 restated	**1,667**	**51**	**(645)**	**255**	**1,328**
Profit for the financial year restated	-	-	-	34,342	34,342
Other comprehensive expense restated	-	-	(108)	-	(108)
At 31 March 2021 restated	**1,667**	**51**	**(753)**	**34,597**	**35,562**
Loss for the financial year	**-**	**-**	-	(697)	(697)
Other comprehensive income	-	-	753	-	753
At 31 March 2022	**1,667**	**51**	**-**	**33,900**	**35,618**

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Notes to the financial statements

1 General information

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

Its ultimate controlling party is disclosed in note 28. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 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.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'. The Company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards and FRS 101, but makes amendments where necessary in order to comply with the Companies Act 2006.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

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) IAS 7, 'Statement of cash flows'
f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation.
h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
i) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group PLC, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual and not as a group.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

The financial statements have been prepared under the historical cost convention, as modified by certain financial assets and liabilities (including derivative instruments) measured at fair value through profit and loss 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.

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a software-as-a-service arrangement. As a result of this decision the Company has revised its accounting policy and will not capitalise costs associated with software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with software-as-a-Service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to software-as-a-service arrangements have been reviewed. This has not had a material impact on the financial statements. The Company will continue to apply this accounting policy to new software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Company's cash flows.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Directors' and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parent and fellow subsidiaries. The Company is in a net current liabilities position of £4.8m and is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Company's activities. The Company recognises revenue 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.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the goods and services provided by the Company results in contracts with one performance obligation.

(b) Determination of contract price

The contract price represents the amount of consideration which the Company expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over-spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

As part of this judgement, variable consideration may be constrained. The Company recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Company provides, standalone selling prices are generally not observable and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) 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.

Revenue recognised over 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.

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as 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 performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (h) for further details on how contract assets and liabilities are recognised.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer 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 receive payment by the Company.

Assessment of contract profitability

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.

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured as provisions. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations

The Company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Accounting for contract modifications

The Company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Company considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Company. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Company's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

(h) Contract assets and liabilities

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Intangible assets

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

(a) Computer software

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

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment 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	3 to 15 years
Aircraft fleet	1% to 10%

Property, plant and equipment 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 accumulated impairment losses.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Impairment of non-current assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Company performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

Provisions

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 can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

Dilapidation provisions for general wear and tear costs are charged to the income statement on a straight-line basis, over the contracted lease term.

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. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions *(continued)*

A provision for the contractual maintenance, overhaul and repair requirements of right of use aircraft and specific associated aircraft components arising from return condition obligations in aircraft lease contracts is recognised as the obligation to perform contractual maintenance arises with each hour flown. Where lease contracts contain contractual penalties in the event that the Company returns leased aircraft in a condition that does not meet the contractual return condition obligation, the associated provision is measured at the lower of the restoration cost and the detriment penalty in the lease. When maintenance of a leased aircraft component is performed, if the component's remaining flying hours are greater than the return condition outlined in the lease contract then a leasehold improvement asset is recognised in proportion to the excess flying hours above the contractual return condition. Maintenance provisions are not recognised in respect of aircraft components which are maintained under Power-by-the-hour maintenance arrangements, instead the associated payments to the maintenance provider are expensed as incurred. Any additional payments made to or received from maintenance providers at the conclusion of Power-by-the-hour maintenance arrangements are recognised as an expense or as income at the time at which they are incurred or received.

Leases

The Company as lessee

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Leases *(continued)*

The Company as lessor

As a lessor, the Company classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Company meet the criteria for a finance lease.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Company's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

Cash and cash equivalents

Company cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

Taxation

(a) Current income tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting 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. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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.

Trade and other receivables

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 24 for details of contingent liabilities.

Employee benefits

(a) Pension obligations

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.

(b) Share-based compensation

The Company operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial instruments

(a) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other receivables are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience, and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other receivables, the Company measures the provision at an amount equal to 12-month expected credit losses.

Trade and other payables, amounts due to related parties, other payables, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

(b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised.

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Company balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2020 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2020. The impact of the prior year adjustment is disclosed in note 20.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional 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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements judgements and estimates have been made in applying the Company's accounting policies 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 certain forward-looking estimates may result in a material adjustment to the carrying amounts 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 considering known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Company's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

Revenue and profit recognition

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations 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 gain share 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 performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

Notes to the financial statements *(continued)*

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

Revenue and profit recognition

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational, and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.

Impairment assessment of property, plant and equipment and right-of-use assets

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

They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 13 and 14 for the carrying amount and note 2 'Property, plant and equipment' and 'Leases' for the useful economic lives and information on how impairment for each class of asset is assessed.

Intercompany balances

The carrying value of intercompany balances is subject to an estimation of any provision for expected credit losses by reference to past experience and any other relevant future factors.

Notes to the financial statements *(continued)*

4 Revenue

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

	2022 £'000 Helicopter Services	2021 £'000 Helicopter Services	**2022 £'000 Training Services**	2021 £'000 Training Services	**2022 £'000 Total**	2021 £'000 Total
By area of activity:						
Provision of services – transferred over time	**35,267**	33,555	**585**	523	**35,852**	34,078
	35,267	33,555	**585**	523	**35,852**	34,078

	2022 £'000	2021 £'000
By geographical area:		
United Kingdom	**35,852**	34,078
	35,852	34,078

5 Exceptional administrative expenses

	2022 £'000	2021 £'000 *Restated
Foundation costs	**-**	(107)
Impairment of aircraft	**-**	(3,857)
Right of use asset impairments	**(303)**	(3,963)
Dilapidation costs	**-**	(1,411)
Impact of policy change - Power by the Hour agreements	**-**	(6,844)
Impact of policy change – Depreciation of parts under Power by the Hour agreements	**-**	765
	(303)	(15,417)

*In the year ended 31 March 2022, the Company restated the prior year financial information relating to Dilapidation costs. Details of the restatement are contained in note 20.

Exceptional administrative expenses are those items which are exceptional in nature or size.

During the year ended 31 March 2022 a total exceptional administrative charge of £303,000 (2021: £15,417,000) was recognised in the income statement identifying the further impairment to Right of use leased aircraft.

Prior year representing £107,000 of restructuring costs of project Foundation which resulted in headcount reductions within the business.

Notes to the financial statements *(continued)*

5 Exceptional administrative expenses *(continued)*

In the prior year the amendment of the Company's accounting policy regarding Power by the Hour agreements, resulted in reducing accounts receivable by £6,844,000 and increasing property, plant and equipment by £765,000.

Management performed a full impairment review and impaired the owned aircraft in the prior year by £3,857,000 and right of use leased aircraft by £3,963,000.

Aircraft were impaired where the carrying values are no longer expected to be recovered through use or sale. With regards to right of use asset impairments, a contract profitability review was performed across all customer contracts and it was determined that the expected benefits to be derived by the Company from the contracts were lower than the unavoidable cost of meeting its obligations under the contracts. Onerous contract provisions were recognised after impairment of any assets directly related to the onerous contract.

A restated adjustment of £1,411,000 reflects the confirmed dilapidation costs held against property assets.

6 Operating profit

Operating profit is stated after charging/(crediting):

	2022 **£'000**	2021 £'000 *Restated
Loss on disposal of property, plant and equipment	**47**	1,258
Depreciation of property, plant and equipment (Note 13)	**1,043**	1,263
Amortisation of intangible assets (Note 11)	**20**	19
Exceptional items (Note 5)	**303**	15,417
Right of Use asset depreciation (Note 14)	**3,553**	4,722
Inventory recognised as an expense	**2,051**	1,846
Impairment of inventory	**(526)**	59
Lease charges - Other	**18**	13
Foreign exchange losses/(gains)	**871**	(399)
Audit fees payable to the Company's auditors	**60**	24

*In the year ended 31 March 2022, the Company restated the prior year Exceptional items. Details of the restatement are contained in note 20.

Loss on the disposal of property, plant and equipment largely relates to the sale of an aircraft during the year.

Fees paid to the company's auditors, Deloitte LLP and its associates (2022), PricewaterhouseCoopers LLP and its associates (2021) are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

The auditors' remuneration for the current year (£60,000) and prior year (£24,000) has been borne by a fellow group company.

Notes to the financial statements *(continued)*

7 Finance income and costs

	2022 £'000	2021 £'000 *Restated
Finance income:		
Bank interest	-	3
	-	3
Finance costs:		
Lease interest (Note 14)	712	816
	712	816

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

8 Staff costs

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

	2022 Number	2021 Number
By activity:		
Operations	185	193
Management and administration	27	32
	212	225

Their aggregate remuneration comprised:

	2022 £'000	2021 £'000
Wages and salaries	12,837	13,292
Social security costs	1,324	1,384
Pension costs – defined contribution plans (Note 21)	1,019	876
	15,180	15,552

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)*

9 Directors' emoluments

The emoluments of the Directors, including pension contributions, paid in respect of services provided to the Company were as follows:

	2022 **£'000**	2021 £'000
Remuneration (including benefits in-kind)	**131**	135
Defined contribution pension scheme	**10**	9
	141	144

During the year no (2021: none) Director remunerated by Babcock Mission Critical Services Onshore Limited exercised share options under long term incentive plans and no (2021: none) Director was entitled to receive share options under long term incentive plans.

There are no retirement benefits under SIPS money purchase schemes accruing for any active Directors (2021: none).

Except for one (2021: one) Director, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

10 Tax

Income tax expense

	2022 **£'000**	2021 £'000 *Restated
Analysis of tax expense in the year		
Deferred tax		
• UK current year (benefit)/expense	**(480)**	119
• UK prior year expense	**353**	741
• Impact of changes in tax rates	**1,352**	-
Total income tax expense	**1,225**	860

	2022 **£'000**	2021 £'000 *Restated
Tax expense/(benefit) in the statement of comprehensive income:		
Deferred tax charged/(credited) on revaluation of cash flow hedges	**177**	(177)
Total tax expense/(benefit) included in other comprehensive income	**177**	(177)

*In the year ended 31 March 2022, the Company restated the prior year income tax. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

10 Income tax expense *(continued)*

The tax for the year is higher (2021: lower) than the standard rate of corporation tax in the UK.

The differences are explained below:

	31 March 2022 £'000	31 March 2021 £'000 *Restated
Profit before tax	**697**	35,202
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	**132**	6,688
Effects of:		
(Income)/expenses not deductible for tax purposes	**19**	(10,775)
Group relief (claimed)/surrendered for nil consideration	**(631)**	4,206
Adjustments in respect of deferred tax for prior years	**353**	741
Impact of change in UK tax rate	**1,352**	-
Total income tax expense	**1,225**	860

In the 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements.

Deferred tax

The movements in deferred tax assets and liabilities during the year are shown below:

	2022 £'000	2021 £'000 *Restated
Deferred tax liability	**5,635**	4,233
	5,635	4,233

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

10 Deferred tax *(continued)*

The movements in deferred tax assets and liabilities during the year are shown below:

Deferred tax liabilities/(assets)	Accelerated capital allowances £'000	Derivative financial instruments £'000	Other £'000	Total £'000
At 1 April 2021 restated*	4,546	(177)	(136)	**4,233**
Income statement debit/(credit)	1,267	-	(42)	**1,225**
Comprehensive income debit	-	177	-	**177**
At 31 March 2022	**5,813**	**-**	**(178)**	**5,635**
At 1 April 2020 as previously stated	(452)	-	(65)	(517)
Income statement debit/(credit)	931	-	(71)	860
Liability on acquisition of subsidiary	4,067	-	-	4,067
Comprehensive income credit	-	(177)	-	(177)
At 31 March 2021 restated*	4,546	(177)	(136)	4,233

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

11 Intangible assets

	Software £'000
Cost	
At 1 April 2021	**261**
Additions	**-**
At 31 March 2022	**261**
Accumulated amortisation	
At 1 April 2021	236
Charge for the year	20
At 31 March 2022	**256**
Net book value	
At 31 March 2022	**5**
At 31 March 2021	25

Intangible assets amortisation is recorded in administration and distribution expenses in the income statement.

Notes to the financial statements *(continued)*

12 Investments

On 22 September 2020 the Company purchased 100% shareholding in Bond Aviation Leasing Limited for £1. Following the acquisition, the subsidiary made a full distribution of all its assets and liabilities to the Company resulting in income recognised of £56.8m in the prior year accounts ending 31 March 2021.

Bond Aviation Leasing Limited is now in the process of being wound up. The investment of £1 was impaired to £nil.

13 Property, plant and equipment

	Asset Under Construction £'000	Freehold property £'000	Leasehold property £'000	Plant and equipment £'000	Aircraft Fleet £'000	Total £'000
Cost						
At 1 April 2021	135	2,279	2,681	5,673	37,510	48,278
Additions	376	-	-	7	163	546
Disposals	-	(5)	-	(113)	(7,993)	(8,111)
Transfers	(186)	-	-	-	186	-
At 31 March 2022	**325**	**2,274**	**2,681**	**5,567**	**29,866**	**40,713**
Accumulated depreciation						
At 1 April 2021	-	763	1,071	3,201	4,015	9,050
Disposals	-	(1)	-	(90)	(4,770)	(4,861)
Charge for the year	-	45	57	514	427	1,043
At 31 March 2022	**-**	**807**	**1,128**	**3,625**	**(328)**	**5,232**
Net book value						
At 31 March 2022	**325**	**1,467**	**1,553**	**1,942**	**30,194**	**35,481**
At 31 March 2021	135	1,516	1,610	2,472	33,495	39,228

Notes to the financial statements *(continued)*

14 Leases: Right-of-use assets

The Company leases vehicles and aircraft under non-cancellable lease arrangements.

	Freehold property	Plant and equipment	Aircraft Fleet (Operating)	Aircraft Fleet (Finance)	Total
	£'000 *Restated	£'000	£'000 *Restated	£'000 *Restated	£'000 *Restated
Cost					
At 1 April 2021 restated	2,654	73	22,440	3,366	28,533
Additions	-	-	6,646	-	6,646
Terminations	-	(47)	(12,844)	-	(12,891)
At 31 March 2022	**2,654**	**26**	**16,242**	**3,366**	**22,288**
Accumulated depreciation					
At 1 April 2021 restated	(204)	(45)	(13,244)	(59)	(13,552)
Impairment	-	-	(303)	-	(303)
Charge for the year	(170)	(18)	(3,355)	(10)	(3,553)
Terminations	-	47	12,844	-	12,891
At 31 March 2022	**(374)**	**(16)**	**(4,058)**	**(69)**	**(4,517)**
Net book value					
At 31 March 2022	**2,280**	**10**	**12,184**	**3,297**	**17,771**
At 31 March 2021 restated	2,450	28	9,196	3,307	14,981

Aircraft fleet has been presented to reflect both operating and finance leases separately, whereas in the prior year this was combined.

*In the year ended 31 March 2022, the Company restated the right of use assets relating to property and aircraft. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

14 Leases *(continued)*

Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	Freehold property £'000 *Restated	Plant and equipment £'000	Aircraft Fleet (Operating) £'000 *Restated	Aircraft Fleet (Finance) £'000	Total £'000 *Restated
At 31 March 2021 restated	2,500	28	16,736	3,366	**22,630**
Additions	-	-	6,646	-	**6,646**
Interest charged (Note 7)	116	1	467	128	**712**
Payments	(250)	(19)	(6,492)	(381)	**(7,142)**
Foreign exchange movement	-	-	26	-	**26**
At 31 March 2022	**2,366**	**10**	**17,383**	**3,113**	**22,872**

Discounted future minimum lease payments are as follows:

	2022 £'000	2021 £'000 *Restated
Within one year	7,565	5,766
In more than one year, but not more than five years	10,170	13,981
After five years	5,137	2,883
Carrying value of liability	**22,872**	22,630

The Company had total cash outflows for leases of £7,142,000 for the year ended 31 March 2022 (2021: £6,673,000).

The following are the amounts recognised in profit or loss:

	2022 £'000	2021 £'000
Expense relating to short-term leases	**7,142**	6,673
	7,142	6,673

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

15 Inventories

	2022 **£'000**	2021 £'000
Aircraft Spares	**2,090**	2,116
Fuel	**33**	17
	2,123	2,133

There are no significant differences between the replacement cost of the inventory and its carrying amount. Inventories are stated after the provision for impairment of £985,000 (2021: £1,510,000).

16 Trade and other receivables

	2022 **£'000**	2021 £'000 *Restated
Amounts falling due within one year:		
Trade receivables	**1,432**	1,745
Amounts owed by group undertakings	**154**	468
Other receivables	**1,760**	621
Prepayments and accrued income	**2,275**	2,002
	5,621	4,836

	2022 **£'000**	2021 £'000 *Restated
Amounts falling due after more than one year:		
Amounts owed by group undertakings	**10,311**	10,311
	10,311	10,311

Amounts owed by group undertakings are unsecured and repayable on demand. There are two loans (2021: two) to group companies:

- A loan of £6,000,000 (2021: £6,000,000) is repayable on demand, with no interest charge.
- A loan of £4,311,000 (2021: £4,311,000) is repayable on demand, with no interest charge.

All other amounts due from group undertakings are expected to be settled in the company's usual operating cycle of 12 months or less.

Trade receivables are stated after provisions for impairment of £nil (2021: £nil).

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

17 Trade and other payables

	2022 £'000	2021 £'000 *Restated
Amounts falling due within one year:		
Trade payables	**298**	2,077
Amounts owed to parent and group undertakings	**1,865**	2,036
Taxation and social security	**355**	394
UK corporation tax payable**	**-**	-
Other payables	**135**	-
Accruals	**2,472**	1,529
Deferred income	**2,158**	2,616
	7,283	8,652

Amounts falling due after more than one year:	2022 £'000	2021 £'000
Other payables	**223**	179
	223	179

All of the group liabilities, 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 25).

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

**In the year ended 31 March 2022, the UK corporation tax payable balance shown separately in the prior year has been restated to be shown as part of the balance that is owed to other group undertakings. This is not shown in note 20 as there is no change to the face of the statement of financial position.

Notes to the financial statements *(continued)*

18 Other financial liabilities

Included in derivative financial instruments at fair value:

	31 March 2022 Liabilities £'000	31 March 2021 Liabilities £'000
Non-current:		
Forward FX contracts – fair value hedges	**198**	588
	198	588
Current:		
Forward FX contracts – fair value hedges	**370**	343
	370	343

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, 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 with compliance to IFRS. A derivative liability of £568,000 (2021: £931,000) is used to reduce foreign exposure risk on leases.

19 Provisions for liabilities

	Property dilapidation provision £'000	**Employee benefit provision £'000**	**Aircraft maintenance provision £'000**	**Total £'000**
At 1 April 2021 restated*	1,411	710	-	**2,121**
Charged to income statement	-	534	1,663	**2,197**
Reversal to income statement	-	(163)	-	**(163)**
Utilised in year	-	(438)	-	**(438)**
At 31 March 2022	**1,411**	**643**	**1,663**	**3,717**

	31 March 2022 £'000	31 March 2021 £'000
Due less than 1 year	**1,951**	438
Due over 1 year	**1,766**	1,683
At 31 March 2022	**3,717**	2,121

Property provision primarily relates to dilapidation costs excluding any rebuild, maintenance provision relates to future repair cost of aircraft parts held and employee benefit provision relates to a long-term staff incentive bonus scheme.

*In the year ended 31 March 2022, the Company restated the prior year property dilapidation and employee benefit provision liabilities. Details of the restatements are contained in note 20.

Notes to the financial statements *(continued)*

20 Prior year restatements

In the year ended 31 March 2022, the Company restated the prior year financial information.

The restatements are summarised below:

Impact on the income statement for the year ended 31 March 2021

	Year ended 31 March Published 2021	(i) Sale and leaseback of aircraft	(ii) Lease contract changes	(iii) Property dilapidations	(vi) Taxation changes	**Year ended 31 March Restated 2021**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Revenue	34,078	-	-	-	-	**34,078**
Cost of revenue	(35,972)	871	15	-	-	**(35,086)**
Loss on sale of tangible fixed assets	(1,258)	-	-	-	-	**(1,258)**
Administration and distribution expenses	(3,160)	-	27	-	-	**(3,133)**
Exceptional administrative expenses	(14,006)	-	-	(1,411)	-	**(15,417)**
Income from shares in group undertakings	56,831	-	-	-	-	**56,831**
Finance income	3	-	-	-	-	**3**
Finance costs	(786)	-	(30)	-	-	**(816)**
Profit before tax	35,730	871	12	(1,411)	-	**35,202**
Income tax expense	(3,039)	-	-	-	2,179	**(860)**
Profit for the period	32,691	871	12	(1,411)	2,179	**34,342**

Notes to the financial statements *(continued)*

20 Prior year restatements *(continued)*

Impact on the statement of comprehensive income for the year ended 31 March 2021

	Year ended 31 March Published 2021 £'000	(i) Sale and leaseback of aircraft £'000	(ii) Lease contract changes £'000	(iii) Property dilapidations £'000	(vi) Taxation changes £'000	**Year ended 31 March Restated 2021 £'000**
Profit for the financial year	32,691	871	12	(1,411)	2,179	**34,342**
Other comprehensive income/(expense):						
Fair value adjustment of foreign exchange hedges	(285)	-	-	-	-	**(285)**
Tax impact of movement in derivatives	-	-	-	-	177	**177**
Total comprehensive income/(expense) for the year	32,406	871	12	(1,411)	2,356	**34,234**

Notes to the financial statements *(continued)*

20 Prior year restatements *(continued)*

31 March 2021 – Statement of financial position (extract)

	Year ended 31 March Published 2021 £'000	(i) Sale and leaseback of aircraft £'000	(ii) Lease contract changes £'000	(iii) Property dilapidations £'000	(iv) Employee benefits reclass £'000	(v) Group inter-company receivables £'000	(vi) Taxation changes £'000	**Year ended 31 March Restated 2021 £'000**
Assets: Non-current assets								
Right-of-use asset	17,025	(2,967)	923	-	-	-	-	**14,981**
Trade and other receivables	-	-	-	-	-	10,311	-	**10,311**
Total non-current assets*	56,278	(2,967)	923	-	-	10,311	-	**64,545**
Current assets								
Trade and other receivables	15,033	-	-	-	-	(10,311)	114	**4,836**
Total current assets*	19,960	-	-	-	-	(10,311)	114	**9,763**
Current liabilities								
Trade and other payables	(9,248)	-	-	-	710	-	(114)	**(8,652)**
Provisions for liabilities	-	-	-	-	(438)	-	-	**(438)**
Lease liabilities	(5,797)	-	31	-	-	-	-	**(5,766)**
Net Current Liabilities*	4,572	-	31	-	272	(10,311)	-	**(5,436)**
Total Assets less current liabilities	60,850	(2,967)	954	-	272	-	-	**59,109**
Non-current liabilities								
Lease liabilities	(15,904)	-	(960)	-	-	-	-	**(16,864)**
Provisions for liabilities	-	-	-	(1,411)	(272)	-	-	**(1,683)**
Deferred tax	(6,589)	-	-	-	-	-	2,356	**(4,233)**
Net Assets*	37,590	(2,967)	(6)	(1,411)	-	-	2,356	**35,562**
Equity								
Hedging reserve	(930)	-	-	-	-	-	177	**(753)**
Accumulated profit/(loss) (brought forward at 1 April 2020)	4,111	(3,838)	(18)	-	-	-	-	**255**
Accumulated profit/(loss) at 31 March 2021	32,691	871	12	(1,411)	-	-	2,179	**34,342**
Total Equity*	37,590	(2,967)	(6)	(1,411)	-	-	2,356	**35,562**

Notes to the financial statements *(continued)*

20 Prior year restatements *(continued)*

*The table above includes only those financial statement line items which have been restated. The total non-current assets, total current assets, net current liabilities, net assets and equity do not therefore represent the sum of the lines presented above.

i. **Sale and leaseback of aircraft:**

During the year ended 31 March 2022 it was identified that credit note income relating to the sale and lease back of several leased aircraft had been recognised in full as a reported benefit in the prior year(s) rather than recognising the annual related income applicable up until the current reporting period. Correction of this error results in a reduction to opening retained earnings of £3.8m with a £0.9m increase to the prior year income statement and a corresponding £3.0m net reduction of the right of use asset balance held within non-current assets.

ii. **Lease contract changes:**

In the year ended 31 March 2022 it was identified that details of a property lease were incorrectly calculated to a lease ending date of 2036 when it should reflect the contract to 2100. Correction of the lease end date has resulted in an increase to both the right of use non-current asset value and lease liability by £306k.

A further 3 x aircraft lease contract end dates were incorrectly shortened which have now been corrected and agree to the lease contracts. This resulted in an increase to the right of use non-current asset of £617k and increase to the lease liability of £623k, with a £6k overall reduction to retained earnings.

The prior year income statement is affected by a reduction in asset depreciation of £15k, a reduction in FX of £27k and an increase to interest charged of £30k resulting in a net increase to profit of £12k.

To align to the adjusted aging lease liability position, a £31k reduction has been applied to current lease liabilities and a £31k increase to non-current lease liabilities.

iii. **Property dilapidations:**

A number of dilapidation costs were identified for various Babcock aviation sites after undertaking building valuation surveys. The total balance relating to these dilapidations was £1.4m and therefore a long-term provision liability for this planned expense has been recognised in the statement of financial position with an increase to the balance on exceptional administrative expenses in the income statement which reduces profit for the period by £1.4m.

iv. **Employee benefits reclassification:**

In the prior year, an employee benefits provision of £0.7m was presented as falling due within one year and classified within trade and other payables. It is considered that as this relates to a long-term staff incentive scheme that pays out over future service length anniversaries, the classification has been reassessed, and the £0.7m presented split between £0.3m non-current liabilities as a long-term provision and the balance £0.4m balance held to current liabilities. The statement of financial position and applicable note in the comparative period have been restated accordingly.

Notes to the financial statements *(continued)*

20 Prior year restatements *(continued)*

v. **Group intercompany receivables reclassification:**

In the prior year, intercompany amounts due from Group of £10.3m were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and, considering the fact that these assets are not expected to be settled within the next twelve months, the classification has been reassessed, and the amounts due from Group presented within non-current assets. The statement of financial position and applicable note in the comparative period have been restated accordingly.

vi. **Taxation changes**

(a) Tax impact on movement in derivatives:

The tax impact on the movement in derivatives was previously omitted from the statement of comprehensive income (OCI). The OCI, statement of financial position and applicable notes have been restated accordingly. This has impacted the OCI by £177k and statement of financial position by increasing non-current liabilities by £177k and equity.

(b) Tax impact on prior years restatement to profit and deferred tax:

The tax impact on the movement of profit from £35.7m down to £35.2m combined with adjustments to deferred tax in respect of prior years' charges and group relief surrendered results in a £2.2m reduction in the income tax expense payable in the income statement and £2.2m reduction to non-current liabilities.

(c) VAT debtor:

In the prior year a VAT debtor of £114k was incorrectly presented as payable within one year and classified within trade payables. Due to the VAT being owed to the Company the classification has been amended to amounts falling due within one year and presented within trade and other receivables. The statement of financial position and applicable notes in the comparative period have been restated accordingly.

Notes to the financial statements *(continued)*

21 Pension commitments

Pension costs for defined contribution schemes are as follows:

	31 March 2022 £'000	31 March 2021 £'000
Defined contribution schemes	**1,019**	876

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

22 Called up share capital

	2022 £'000	2021 £'000
Allotted, called up and fully paid		
1,666,666 ordinary shares of £1 each (2021: 1,666,666)	**1,667**	1,667

23 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2022 the Company had capital commitments of £nil (2021: £nil).

b) Lease Commitments

At 31 March 2022 the Company had lease commitments of £nil for leases not yet commenced (2021: £nil).

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.

In the year ended 31 March 2022, the Company had no transactions or balances outstanding with related parties that fall outside the FRS 101 exemption criteria.

25 Contingent liabilities

The Company has guaranteed or has joint and several liability for the drawn bank overdraft facilities that are shared across multiple Group companies with utilisation of £383.6m at 31 March 2022 (31 March 2021: £371.3m).

Notes to the financial statements *(continued)*

26 Post balance sheet events

There have been no significant events affecting the Company since the year end.

27 Dividends

No interim dividend payment has been made for this financial year (2021: £nil). No final dividend for the year ended 31 March 2022 is proposed by the Directors (2021: £nil).

28 Immediate and ultimate parent undertakings

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

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

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