Cavendish Nuclear Limited

Annual Report

For the year ended 31 March 2019

Company registration number:

3975999

Directors and advisors

Current directors

S C Bowen
K J Garvey
I S Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
England
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
Pegasus Business Park
Herald Way
East Midlands
DE74 2UZ

Strategic report for the year ended 31 March 2019

The directors present their Strategic report on the Company for the year ended 31 March 2019.

Principal activities

The principal activities of the Company are the provision of engineering and support services to the nuclear industry.

Review of the business

	2019 £000	2018 £000
Revenue	**229,459**	203,621
Profit for the financial year	**21,086**	49,278

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

Cavendish Nuclear Limited operates at all levels within the nuclear industry and was built through a combination of acquisition and organic growth.

Services offered encompass initial study, design, management and support to outages, plant operations, decommissioning, power station support and involvement in the UK's nuclear new build programmes.

Major customers during the year include the NDA (via the Cavendish Fluor Partnership Limited and Cavendish Dounreay Partnership Limited), AWE, Sellafield and EDF.

Cavendish Nuclear Limited continues to support the UK nuclear new build sector.

In the medium term the Company's markets are expected to grow with more power stations moving to decommissioning, power stations extending their lives, and ongoing support to new nuclear generation build.

Operational and financial review

Revenue for the year was £229,459,000 (2018: £203,621,000), whilst profit before taxation was £26,179,000 (2018: £54,482,000).

The decrease in profit before tax is largely due to increased service costs on defined benefit pension schemes and the impact from income from shares in group undertakings (see note 6).

In March 2019 the company (and its joint venture partner Balfour Beatty) successfully completed and formally handed over the Silo Maintenance Facility to Sellafield Limited. The joint venture managed all stages of the project from concept design.

During the year the company has won a number of key contracts including the deplanting, decommissioning & demolition of the Dounreay Material Test Reactor (DMTR).

Operational and financial review *(continued)*

Cavendish Nuclear Limited has secured places on a number of long term frameworks which will enable the company to bid for future projects as they come to market. Cavendish Nuclear Limited has also won contracts on a number of sites where we previously had no Tier 2 presence.

Following the agreement (with the NDA) in the prior year for the termination of the Magnox joint venture contract (with Fluor), the company has continued to deliver milestones in line with expectations with a continuing focus on delivering cost effective solutions to the decommissioning programme.

Decommissioning continued with the progression of Europe's most complex project, Dounreay. The joint venture has delivered the revised scope associated with the exotics waste removal project as part of the UK government's waste removal strategy.

At Sellafield, the company continues to deliver exemplary performance preparing the aging facility for waste retrieval (e.g. the Pile Fuel Cladding Silo Project (PFCS), a joint venture with Bechtel). The strong performance in the design frameworks at Sellafield continues to be rewarded with additional new scope.

Cavendish Nuclear Limited continues to provide services to EDF's generating fleet, including critical reactor core analysis allowing plant life extension of the AGR reactors, maintenance and outage support.

Long-term business sustainability is a key priority for Cavendish Nuclear and the company continues to focus on three key themes of safety, people and performance. Cavendish Nuclear Limited actively recruits talented individuals into our graduate and apprenticeship schemes.

Principal risks and uncertainties

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

The key risks and uncertainties affecting the Company relate to health and safety, environmental and IT/power failures. Environmental and social effects are always considered. Documented procedures and risk assessments manage health and safety risks. Disaster recovery procedures exist which would be implemented in the event of power and IT outages. The directors manage this risk by meeting on a regular basis to discuss these risks.
Key risks are:

a) *Operations that carry significant health and safety and environment risks*

   Risk mitigation and control process:

   i) Health, safety and environmental performance is an absolute priority for the business and receives continuous attention and oversight at all levels in the business
   ii) Health, safety and environmental professionals are employed across the business and there is a specific governance process in place

Principal risks and uncertainties *(continued)*

b) Reliance on major contracts with a small number of large clients

Risk mitigation and control process:

i) The business is responsive and innovative to ensure meeting customer needs
ii) The business has extensive dialogue with customers to ensure that we have a clear understanding of their changing requirements and priorities
iii) Projects are reviewed and monitored on a frequent basis to ensure we are delivering to customer agreed targets
iv) All staff are rigorously and continually educated and trained to minimise risk of mistakes and accidents
v) Labour includes a high level of agency staff enabling the business to flex its resources

c) Dependency on attracting, developing and retaining skilled staff

Risk mitigation and control process:

i) A dedicated team is in place to focus on attracting and developing talent into the business
ii) Apprentice and graduate recruitment programmes are run annually
iii) The business has a succession plan in place for all key staff and roles

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 70 to 81 of the annual report of Babcock International Group PLC ("the Group"), which does not form part of this report.

Future developments

The company has a robust order book and expects to maintain its position over the next financial year.

Key performance indicators

The Group's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Nuclear, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 49 to 51 of the Group's report, which does not form part of this report.

The report has been approved by the board of directors and signed on behalf of the board by:

K J Garvey
Director
24 July 2019

Directors' report for the year ended 31 March 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

Dividends

A dividend of £47,000,000 representing £3,133,333 per ordinary share was declared and paid in the year (2018: £70,082,000).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Going concern

The Company meets its day-to-day working capital requirements through bank facilities and the Group's treasury arrangements. The current economic conditions continue to create uncertainty over the Company's ongoing business and the availability of finance for the foreseeable future. However, the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of available facilities. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the point of approving this Annual Report. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The company has received a letter of support from Babcock Support Services (Investments) Limited and, therefore, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Financial risk management

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

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 35 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Directors

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

S C Bowen
K J Garvey
I S Urquhart

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

Environment

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

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

Brexit considerations

The majority of the Company's revenue and cost base is both derived and sourced from the UK. A minority amount of materials are sourced from Europe and the Company has robust controls and contingency plans to mitigate the risk of disruption either by finding new sources, holding adequate stock to reduce logistical risk or by working with the European supply chain.

Directors' report for the year ended 31 March 2019 *(continued)*

Statement of directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the 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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual general Meeting.

Directors' report for the year ended 31 March 2019 *(continued)*

The report has been approved by the board of directors and signed on behalf of the board by:

K J Garvey

Director

24 July 2019

Independent auditors' report to the members of Cavendish Nuclear Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cavendish Nuclear Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2019; the Income statement, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

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

Independent auditors' report to the members of Cavendish Nuclear Limited *(continued)*

Report on the audit of the financial statements *(continued)*

Reporting on other information *(continued)*

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilties set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Independent auditors' report to the members of Cavendish Nuclear Limited *(continued)*

Report on the audit of the financial statements *(continued)*

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

24 July 2019

Income statement
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	**229,459**	203,621
Cost of sales		**(194,783)**	(164,888)
Gross profit		**34,676**	38,733
Administrative expenses		**(22,124)**	(12,717)
Operating profit	5	**12,552**	26,016
Income from shares in group undertakings	6	**13,098**	27,642
Profit before interest and income tax		**25,650**	53,658
Finance income	7	**-**	149
Finance costs	7	**(286)**	(95)
Other finance income – pensions	25	**815**	770
Profit before income tax		**26,179**	54,482
Tax on profit	12	**(5,093)**	(5,204)
Profit for the financial year		**21,086**	49,278

All of the above results derive from continuing operations.

Statement of comprehensive income
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Profit for the financial year		**21,086**	49,278
Other comprehensive income:			
Items that will not be subsequently reclassified to income statement:			
Actuarial and experience gains / (losses) recognised in the pension scheme	25	**220**	(4,706)
Deferred tax arising on gains / (losses)/ in the pension scheme	12	**(42)**	894
Impact of change in UK tax rate	12	**(14)**	23
Movement in fair value reserve		**-**	(48)
Total other comprehensive income for the year		**164**	(3,837)
Total other comprehensive income for the year		**21,250**	45,441

The notes on pages 15 to 44 are an integral part of these financial statements.

Cavendish Nuclear Limited

Balance sheet
as at 31 March 2019

	Note	**2019** **£000**	2018 £000
Non-current assets			
Intangible assets	13	**93,719**	93,309
Tangible assets	14	**9,505**	6,365
Investments	15	**2,000**	2,000
Retirement benefit assets	25	**28,593**	29,308
		133,817	130,982
Current assets			
Inventories	16	**3,057**	3,112
Trade and other receivables	17	**113,071**	143,563
Cash and cash equivalents		**2,718**	3,613
		118,846	150,288
Trade and other payables – amounts falling due within one year	18	**(153,648)**	(155,882)
Net current liabilities		**(34,802)**	(5,594)
Total assets less current liabilities		**99,015**	125,388
Provisions for liabilities	19	**(3,821)**	(4,444)
Net assets		**94,194**	120,944
Capital and reserves			
Called up share capital	21	**50**	50
Share premium account		**50,000**	50,000
Retained earnings		**45,144**	70,894
Total shareholders' funds		**95,194**	120,944

The notes on pages 15 to 44 are an integral part of these financial statements.

The financial statements on pages 12 to 44 were approved by the board of directors and signed on its behalf by:

K J Garvey
Director
24 July 2019

Statement of changes in equity
for the year ended 31 March 2019

	Note	Called up share capital £000	Share premium account £000	Retained earnings £000	Fair Value Reserve £000	Total share-holders' funds £000
Balance at 1 April 2017		**50**	**50,000**	**95,487**	**48**	**145,585**
Profit for the financial year		-	-	49,278	-	49,278
Other comprehensive expense for the financial year		-	-	(3,789)	(48)	(3,837)
Dividends paid		-	-	(70,082)	-	(70,082)
Balance at 31 March 2018		**50**	**50,000**	**70,894**	**-**	**120,944**
Profit for the financial year		-	-	21,086	-	21,086
Other comprehensive expense for the financial year		-	-	164	-	164
Dividends paid	22	-	-	(47,000)	-	(47,000)
Balance at 31 March 2019		**50**	**50,000**	**45,144**	**-**	**95,194**

The notes on pages 15 to 44 are an integral part of these financial statements.

Notes to the financial statements

1 General information

Cavendish Nuclear Limited is a private limited company, limited by shares, which is incorporated and domiciled in England, part of the United Kingdom. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2017) in these financial statements:

- Presentation of IAS format financial statements
- Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101, meaning in this instance 1 April 2014)

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities 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.

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

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

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) 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)

c) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

d) IAS 7, 'Statement of cash flows'
e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
f) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

At 31 March 2019 the company had net current liabilities of £34,802,000 (2018: £5,594,000). The Company is dependent upon the continued support of a fellow group undertaking, Babcock Support Services (Investments) Limited, which has expressed its willingness to support the Company for at least 12 months from the signing of these financial statements. On this basis the directors consider it appropriate that these financial statements have been prepared on a going concern basis.

Adoption of new and revised standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 15, *'Revenue from Contracts with Customers'* (effective 1 January 2018), replaces existing revenue recognition standards. The Company's previous revenue recognition policy was materially compliant with IFRS 15. The Company has adopted the modified transition approach in line with IFRS 15. As such prior year comparative balances have not been adjusted as permitted by the Standard.

Revenue

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

(a) Performance obligations

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

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

(c) Revenue and profit recognition

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

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

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

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

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Company.

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue (continued)

include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

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

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

Research and Development

The Company commits resources to research and development to the extent that management considers reasonable for the evolution and development of the business. Tax credits received thereon are recognised in the income statement.

Intangible assets

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

a) *Goodwill*

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

Annual impairment reviews are performed as outlined in note 13.

b) *Computer software*

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent accumulated 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 buildings	2% per annum
Short Leasehold land and buildings	6.66% to 20% per annum
Vehicles, plant and machinery	10% to 25% per annum
Office equipment	20% per annum

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 provision for impairment in value.

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. In the case of work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Trade receivables

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

Share based payments

The Group 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.

Taxation

(a) Current income tax

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

2 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pension costs and other post-retirement benefits

The Company participates in defined benefit schemes that share risks between entities under common control. The defined benefit schemes define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

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

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

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

The Company participates in defined benefit contribution schemes. Obligations for contributions to the defined benefit pension plans are recognised as an expense in the income statement.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign

2 Summary of significant accounting policies *(continued)*

Foreign currencies *(continued)*

currencies are translated into the local currency at the year-end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

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

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

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

3 Critical accounting estimates and judgements *(continued)*

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 24 for the result of the defined benefit pension scheme.

Contract accounting

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

4 Revenue

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

	2019	2018
	£000	£000
By area of activity:		
Sale of goods – transferred at a point in time	**3,824**	6,894
Provision of services – transferred at a point in time	**6,474**	7,555
Provision of services – transferred over time	**219,161**	189,172
	229,459	203,621

	2019	2018
	£000	£000
By geographical location:		
UK	**228,208**	202,587
Rest of world	**1,251**	1,034
	229,459	203,621

5 Operating profit

Operating profit is stated after charging / (crediting):

	2019 £000	2018 £000
Loss/ (profit) on disposal of office equipment	91	(34)
Depreciation of tangible fixed assets	363	1,124
Amortisation of intangible assets	93	148
Operating lease charges		
- Land and buildings	1,632	1,799
- Plant and machinery	667	870
Foreign exchange gains	-	(6)
Audit of financial statements	40	35

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than the statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

Cost of sales for the year ended 31 March 2019 also includes research and development tax credits of £6,480,000 (2018: £4,279,000).

6 Income from shares in group undertakings

	2019 £000	2018 £000
Dividends received from joint ventures	13,098	27,642

These have reduced due to the Dounreay Exotics waste removal project continuing and the impact of the termination of the Magnox joint venture contract.

7 Finance income and costs

	2019 £000	2018 £000
Finance income:		
Loan interest receivable from group undertakings	-	149
Finance costs:		
Bank interest	(193)	(13)
Other charges	(93)	(82)
	(286)	(95)

8 Staff costs

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

	2019 Number	2018 Number
By activity:		
Operations	**1,029**	1,008
Management and administration	**196**	197
	1,225	1,205

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	**61,441**	57,288
Social security costs	**6,965**	6,594
Other pension costs	**11,085**	7,766
	79,491	71,648

Included in other pension costs are £7,499,000 (2018: £4,667,000) in respect of the defined benefit schemes and £3,586,000 (2018: £3,099,000) in respect of the defined contribution scheme.

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

9 Directors' remuneration

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

	2019 £000	2018 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	**694**	632
Defined contribution pension scheme	**18**	18
	712	650

During the year one (2018: None) director remunerated by Cavendish Nuclear Limited exercised share options under long term incentive plans and two (2018: two) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no directors (2018: None) under defined benefit pension schemes.

10 Directors' remuneration *(continued)*

Except for one (2018: one) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2019	2018
	£000	£000
Emoluments (excluding pension contributions)	**391**	382
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	**56**	54

The highest paid director did not exercise shares under long term incentive plans (2018: the highest paid director did not exercise shares under long term incentive plans).

11 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Cavendish Nuclear Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts.

During the year the total charge relating to employee share-based payment plans was £72,000 (2018: £543,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £58,000 (2018: £434,000).

Notes to the financial statements *(continued)*

11 Share based payments *(continued)*

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPS AND DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	–	379.1	974.5	46%	15/06/16
2016 PSP	2,085,427	974.5	14.0%	4.0	–	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	–	396.4	991.0	46%	12/10/16

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The DBMP Matching and PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE, except that in 2015 the PSP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 92,772 matching shares (2018: 79,475 matching shares) at a cost of £0.6 million (2018: £0.6 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 82 matching shares vested (2018: nil) leaving a balance of 918 matching shares (2018:1,000 matching shares).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

12 Income tax expense

Income tax expense included in income statement

	2019 £000	2018 £000
Current tax:		
UK Corporation tax on profits for the year	**5,149**	4,108
Adjustment in respect of prior year	-	-
Current tax charge for the year	**5,149**	4,108
Deferred tax:		
Origination and reversal of timing differences	**(79)**	1,155
Adjustment in respect of prior years	**33**	(54)
Impact of change in UK tax rate	**(10)**	(5)
Total deferred tax charge (note 19)	**(56)**	1,096
Tax on profit on ordinary activities	**5,093**	5,204

Tax expense/ (income) included in other comprehensive income

	2019 £000	2018 £000
Current tax	-	-
Deferred tax:		
- Tax impact of actuarial gains/ losses on pension schemes	**(42)**	894
- Impact of change UK in tax rates	**(14)**	23
Tax (income) / expense included in other comprehensive income	**(56)**	917

Tax (income) / expense included in equity

	2019 £000	2018 £000
Current tax	-	-
Total tax (income) / expense included in equity	-	-

12 Income tax expense *(continued)*

Tax expense for the year is lower (2018: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before income tax	**26,179**	54,482
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2018: 19%)	**4,974**	10,352
Effects of:		
Expenses not deductible	**96**	(5,089)
Adjustment in respect of deferred tax for prior years	**33**	(54)
Impact of change in UK tax rate	**(10)**	(5)
Total tax charge for the year	**5,093**	5,204

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 17% as this is the tax rate that will apply on reversal.

13 Intangible assets

	Goodwill £000	Computer software £000	Total £000
Cost			
At 1 April 2018	118,774	2,084	**120,858**
Additions	-	503	**503**
At 31 March 2019	118,774	2,587	**121,361**
Accumulated amortisation and impairment			
At 1 April 2018	26,426	1,123	**27,549**
Amortisation of software	-	93	**93**
At 31 March 2019	26,426	1,216	**27,642**
Net book value			
At 31 March 2019	**92,348**	**1,371**	**93,719**
At 31 March 2018	92,348	961	93,309

Notes to the financial statements *(continued)*

13 Intangible assets *(continued)*

The goodwill arose on acquisition of the following:

Acquisition	Date	2019 £000
Trade and assets of Lemsew Limited	8 May 2006	33,609
Trade and assets of INS Innovation Limited	28 June 2008	36,418
Nuclear business of Strachan and Henshaw Limited	30 January 2009	23,468
UK trade and assets of Babcock Nuclear Limited	1 April 2012	25,279
		118,774

The Company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £5.9 million (2018: £5.9 million) against operating profit, and a reduction of £29.6 million (2018: £23.7 million) in the carrying value of goodwill in the balance sheet.

Notes to the financial statements *(continued)*

14 Tangible assets

	Freehold land and buildings £000	Short Leasehold land and buildings £000	Vehicles, plant and machinery £000	Office equipment £000	Total £000
Cost					
At 1 April 2018	1,779	6,390	1,528	2,822	**12,519**
Reclassification	-	-	10	(10)	-
Additions	361	3,045	212	38	**3,656**
Disposals	-	(603)	(105)	(81)	**(789)**
At 31 March 2019	2,140	8,832	1,645	2,769	**15,386**
Accumulated depreciation					
At 1 April 2018	313	2,462	1,068	2,311	**6,154**
Reclassification	-	-	2	(2)	-
Revaluation	-	(696)	-	-	**(696)**
Charge for the year	68	653	118	220	**1,059**
Disposals	-	(451)	(104)	(81)	**(636)**
At 31 March 2019	381	1,968	1,084	2,448	**5,881**
Net book value					
At 31 March 2019	**1,759**	**6,864**	**561**	**321**	**9,505**
At 31 March 2018	1,466	3,928	460	511	6,365

15 Investments

	2019 £000	2018 £000
Shares in Group undertakings	**2,000**	2,000

16 Inventories

	2019 £000	2018 £000
Long term contract balances	**1,867**	1,601
Finished goods and goods for resale	**1,190**	1,511
	3,057	3,112

There is no significant difference between the replacement cost of inventories and their carrying amounts.

Notes to the financial statements *(continued)*

17 Trade and other receivables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade receivables	**11,273**	18,837
Amounts due from customers for contract work	**25,025**	24,208
Amounts owed by group undertakings	**69,901**	91,146
Other receivables	**3,326**	8,271
Prepayments and accrued income	**1,742**	1,101
UK corporation tax recoverable	**247**	-
	111,514	143,563
Amounts due after more than one year:		
Other receivables	**1,557**	-
	113,071	143,563

Amounts owed by group undertakings are unsecured and repayable on demand.

There are four major loans (2018: four) to group companies totalling £64,800,000 (2018: £84,800,000) which are repayable on demand, with no interest charge.

	Amounts due for contract work £000	Accrued Income £000	Capitalised contract costs £000	Total £000
At 31 March 2018	24,208	-	3,051	**27,259**
Reclassification – IFRS 15 Transition	-	-	-	-
31 March 2018 - restated	24,208	-	3,051	**27,259**
Transfers from contract assets recognised at the beginning of the year to receivables	(23,138)	-	(75)	**(23,213)**
Increase due to work done not transferred from contract assets	23,955	-	-	**23,955**
Amounts capitalised	-	-	806	**806**
Amortisation of contract assets	-	-	(1,650)	**(1,650)**
At 31 March 2019	**25,025**	-	**2,132**	**27,157**

18 Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade creditors	**17,584**	14,810
Amounts owed to parent and group undertakings	**98,579**	96,968
Taxation and social security	**8,302**	8,298
Deferred tax (note 19)	**4,268**	4,268
Payments received on account	**5,268**	5,268
Other payables	**4,369**	5,128
Accruals and deferred income	**15,278**	19,698
UK corporation tax payable	-	1,444
	153,648	155,882

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

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 23(a)).

	Contract cost accrual £000	Advance payments £000	Deferred income £000	Total £000
At 31 March 2018	14,915	5,268	-	**20,183**
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(4,515)	-	(4,515)
Increase due to cash received, excluding amounts recognised as revenue	-	4,515	26	4,541
Amounts accrued	11,924	-	-	11,924
Amounts utilised	(14,763)	-	-	(14,763)
Disposal	-	-	-	-
Exchange adjustment	-	-	-	-
At 31 March 2019	**12,076**	**5,268**	**26**	**17,370**

Notes to the financial statements *(continued)*

19 Provisions for liabilities

	Continuing Annual Payments £000	Dilapidations £000	Contract/ Warranties £000	Total £000
At 1 April 2018	1,857	1,789	798	**4,444**
Charged to the income statement	88	123	177	**388**
Released to the income statement	(301)	(237)	(214)	**(752)**
Utilised in the year	(126)	(64)	(69)	**(259)**
At 31 March 2019	1,518	1,611	692	**3,821**

Continuing Annual Payments provision

On being made redundant, certain staff are entitled to receive their annual pension immediately and the amounts payable include a contribution from the Company. The continuing annual payments provision comprises the Company's contribution to the annual pensions payable.

Dilapidations provision

This provision is for the cost of returning leasehold buildings to their original pre-lease state.

Contract/ Warranties provision

The contract/ warranties provision includes amounts provided in respect of contractual warranty periods of completed contracts, and provisions for costs on existing contracts.

20 Deferred taxation

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

Deferred tax assets / (liabilities)	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2017:	**352**	**(4,441)**	**(4,089)**
- (Charged) to the income statement	**(31)**	**(1,065)**	**(1,096)**
- Credited to other comprehensive income	-	**917**	**917**
At 31 March 2018:	**321**	**(4,589)**	**(4,268)**
- Credited/ (charged) to the income statement	**(160)**	**216**	**56**
- Charged to other comprehensive income	-	**(56)**	**(56)**
At 31 March 2019:	**161**	**(4,429)**	**(4,268)**

Notes to the financial statements *(continued)*

21 Called up share capital

	2019	2018
Authorised		
20 Ordinary shares of £1 each (2018: 20)	**20**	20
50,000 Preference shares of £1 each (2018: 50,000)	**50,000**	50,000
	50,020	50,020
Allotted, and fully paid		
15 Ordinary shares of £1 each (2018: 15)	**15**	15
50,000 Preference shares of £1 each (2018: 50,000)	**50,000**	50,000
	50,015	50,015

22 Dividends paid

	2019 £000	2018 £000
Ordinary Share Dividend (£3,133,333 per share (2018: £4,672,133 per share)).	**47,000**	70,082

23 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2018: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2018: £nil).

b) Operating lease commitments

At 31 March, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2019 Land and buildings £000	2019 Other £000	2019 Total £000	2018 Land and buildings £000	2018 Other £000	2018 Total £000
Future minimum rentals payable under non-cancellable operating leases:						
- not later than one year	**2,244**	**361**	**2,605**	1,581	545	2,126
- later than one year and not later than five years	**8,180**	**374**	**8,554**	7,993	644	8,637
- later than five years	**4,000**	-	**4,000**	6,082	-	6,082
	14,424	**735**	**15,159**	15,656	1,189	16,845

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

23 Guarantees and financial commitments *(continued)*

c) Capital commitments

At 31 March 2019 the Company had capital commitments of £56,000 (2018: £2,163,000) relating to radiation detectors and refurbishment.

24 Related party disclosures

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

During the year the Company also entered into transactions in the ordinary course of business with Cavendish Boccard Nuclear Limited, Cavendish Dounreay Partnership Limited and Cavendish Fluor Partnership Limited, companies which are 51%, 50% and 65% owned by Cavendish Nuclear Limited respectively.

Transactions entered into and trading balances outstanding at 31 March 2019 and for the year then ended are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Cavendish Boccard Nuclear Limited	3,375	-	-	-
Cavendish Dounreay Partnership Limited	126	-	17	-
Dounreay Site Restoration Limited	4,545	76	56	6
Cavendish Fluor Partnership Limited	117	-	20	-
Magnox Limited	29,997	111	204	-

Transactions entered into and trading balances outstanding at 31 March 2018 and for the year then ended are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Cavendish Boccard Nuclear Limited	2,389	-	299	-
Cavendish Dounreay Partnership Limited	115	-	12	-
Dounreay Site Restoration Limited	3,309	45	85	-
Cavendish Fluor Partnership Limited	102	-	-	-
Magnox Limited	29,118	217	373	-

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

25 Retirement benefits and assets

Defined benefit schemes

Balance sheet assets and liabilities recognised are as follows:

	2019 £000	2018 £000
Babcock International Group Pension Scheme		
Retirement benefits – funds in surplus	**655,979**	600,345
Retirement benefits – funds in deficit	**(632,827)**	(575,262)
	23,152	25,083
Electricity Supply Pension Scheme		
Retirement benefits – funds in surplus	**69,097**	63,702
Retirement benefits – funds in deficit	**(63,656)**	(59,477)
	5,441	4,225
Retirement benefit assets	**28,593**	29,308

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to defined contribution schemes in the UK in respect of a number of its employees. The Company is also a contributing employer to defined benefit schemes (the "Babcock International Group PLC Pension Scheme" and the "Electricity Supply Pension Scheme). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the schemes. The allocation of the assets and liabilities of the schemes which have been recognised in these financial statements are detailed in this note.

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

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

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

25 Retirement benefit assets *(continued)*

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2019 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2016. The major assumptions used for the IAS 19 valuation were:

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

The expected total employer contributions to be made by participating employers to the scheme in 2019/20 are £21.7m. The future service rate is 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £21.7m is £8.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

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

The changes to the Babcock International Group Plc balance sheet at March 2019 and the changes to the Babcock International Group Plc income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2019 £000	Income statement 2020 £000
Initial assumptions	1,359,000	10,909
Discount rate assumptions increased by 0.5%	(98,670)	(5,658)
Discount rate assumptions decreased by 0.5%	98,949	2,282
Inflation rate assumptions increased by 0.5%	61,437	2,303
Inflation rate assumptions decreased by 0.5%	(55,449)	(2,102)
Total life expectancy increased by half a year	28,546	838
Total life expectancy decreased by half a year	(28,266)	(839)
Salary increase assumptions increased by 0.5%	8,974	605
Salary increase assumptions decreased by 0.5%	(8,695)	(605)

Notes to the financial statements *(continued)*

25 Retirement benefit assets *(continued)*

The weighted average duration of cashflows (years) was 16.

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2019 were:

Fair value of plan of assets	**2019**	2018
	£'000	£'000
Equities	**444,412**	310,191
Property	**136,658**	120,844
Absolute return and multi strategy funds	**16,135**	4,833
Bonds	**326,937**	485,697
Matching assets	**544,834**	569,413
Scheme assets	**1,468,976**	1,490,978
Active position on longevity swaps	**(60,111)**	(50,150)
Total assets	**1,408,865**	1,440,828
Present market value of liabilities - funded	**(1,359,140)**	(1,380,628)
Gross pension surplus	49,725	60,200

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

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

The longevity swaps have been valued, in 2019, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	**2019 £000**	2018 £000
Current service cost	**9,615**	10,253
Incurred expenses	**1,965**	2,232
Past service cost	**13,646**	-
Settlement	**221**	-
Total included within operating profit	**25,447**	12,485
Net interest income	**(1,524)**	(1,194)
Total charged to the income statement	23,923	11,291

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £4,477,000 for service cost (2018: £4,272,000), £915,000 for incurred expenses (2018: £930,000), and net interest income of (£710,000) (2018: income (£498,000)).

25 Retirement benefit assets *(continued)*

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2019 £000**	2018 £000
Actuarial loss recognised in the SOCI	**(4,077)**	(4,170)
Experience gains	**3,181**	13,688
Other losses	**(8,666)**	(439)
	(9,562)	9,079

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was (£1,234,000) (2018: gain of £1,942,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	**2019 £000**	**2018 £000**
At 1 April	**1,490,978**	1,464,460
Interest cost	**37,789**	37,512
Employee contributions	**272**	404
Employer contributions	**23,010**	18,090
Benefits paid	**(102,320)**	(76,476)
Settlement	**(2,761)**	-
Actuarial gain	**22,007**	46,988
At 31 March	**1,468,975**	1,490,978

Reconciliation of present value of scheme liabilities	**2019 £000**	**2018 £000**
At 1 April	**1,380,628**	1,371,687
Service cost	**9,615**	10,253
Incurred expenses	**1,965**	2,232
Interest on liabilities	**34,972**	35,058
Employee contributions	**272**	404
Actuarial (gain) / loss – demographics	**(21,380)**	11,172
Actuarial loss / (gain) – financial	**47,464**	(7,003)
Experience (gain) / losses	**(3,181)**	33,301
Benefits paid	**(102,320)**	(76,476)
Settlemement	**(2,541)**	-
Past service cost	**13,646**	-
At 31 March	**1,359,140**	1,380,628

25 Retirement benefit assets *(continued)*

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £23,152,000 (2018: surplus £25,083,000).

Electricity Supply Pension Scheme

The Company also operates a defined benefit pension scheme (the "Electricity Supply Pension Scheme") for the benefit of its employees. The full details of this scheme are disclosed below.

For the defined benefit scheme, the IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2013. The major assumptions used for the IAS 19 valuation were:

	31 March 2019 %	31 March 2018 %
Major assumptions		
Rate of increase in salaries	2.30	2.20
Rate of increase in pension payment	3.31	3.22
Discount rate	2.40	2.58
Inflation	2.30	2.20

The mortality assumptions used were:

	31 March 2019 Years	31 March 2018 Years
Life expectancy from age 65 (male age 65)	22.0	22.2
Life expectancy from age 65 (male age 45)	23.0	23.3

The changes to the Company balance sheet at March 2019 and the changes to the Company income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

25 Retirement benefit assets *(continued)*

	Defined benefit obligations 2019 £000	Income statement 2020 £000
Initial assumptions		
Discount rate assumptions increased by 0.5%	7,053	395
Discount rate assumptions decreased by 0.5%	(7,053)	(320)
Inflation rate assumptions increased by 0.5%	5,195	(223)
Inflation rate assumptions decreased by 0.5%	(4,990)	218
Total life expectancy increased by half a year	791	(36)
Total life expectancy decreased by half a year	(790)	37
Salary increase assumptions increased by 0.5%	2,054	(136)
Salary increase assumptions decreased by 0.5%	(2,053)	137

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2019 were:

Analysis of assets and expected returns per annum:

	31 March 2019 £000	31 March 2018 £000
Equities	**8,662**	7,650
Bonds	**52,376**	46,942
Absolute return and multi strategy funds	**3,929**	3,929
Cash and other	**4,130**	5,181
Total assets	**69,097**	63,702
Present market value of liabilities	**(63,656)**	(59,477)
Gross pension asset	**5,441**	4,225

Investments have been valued for this purpose at fair value at the balance sheet date. Equity investments and bonds are valued at bid price.

The equity investments and bonds are valued at bid price.

Analysis of amount charged to the income statement	2019 £000	2018 £000
Current service cost	**1,356**	1,416
Past service cost	**312**	-
Incurred expenses	**-**	40
Total included within operating profit	**1,668**	1,456
Net interest credit	**(105)**	(272)
Total charge to the income statement	**1,563**	1,184

Notes to the financial statements *(continued)*

25 Retirement benefit assets *(continued)*

Analysis of amount included in statement of comprehensive income ("SOCI")	**2019 £000**	2018 £000
Actuarial gain/ (loss) recognised in the SOCI	**1,768**	(6,688)
Experience (losses) / gains	**(317)**	40
Other gains	**3**	-
	1,454	(6,648)

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets

	2019 £000	2018 £000
At 1 April	**63,702**	69,129
Interest cost	**1,652**	1,802
Employee contributions	**-**	-
Employer contributions	**1,325**	1,395
Benefits paid	**(1,453)**	(940)
Actuarial gain/ (loss)	**3,871**	(7,684)
At 31 March	**69,097**	63,702

Reconciliation of present value of scheme liabilities

	2019 £000	2018 £000
At 1 April	**59,477**	58,467
Service cost	**1,356**	1,456
Interest on liabilities	**1,544**	1,530
Actuarial loss / (gain) - demographics	**(1,227)**	(239)
Actuarial gain - financial	**3,330**	(757)
Experience losses / (gains)	**317**	(40)
Benefits paid	**(1,453)**	(940)
Past service cost	**312**	-
At 31 March	**63,656**	59,477

26 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Registered address	Country	Interest	Direct %	Indirect %
British Nuclear Services Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	1 Ordinary Share	100%	-
Babcock IP Management (Number One) Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	1 Ordinary Share	0.01%	-
BIL Solutions Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	2,000,000 Ordinary	100%	-
Cavendish Boccard Nuclear Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	51 Ordinary Shares	51%	-
Cavendish Dounreay Partnership Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	50 Ordinary Shares	50%	-
Cavendish Fluor Partnership Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	65 Ordinary Shares	65%	-
Cavendish Nuclear Manufacturing Limited	33 Wigmore Street, London, W1U 1QX	United Kingdom	1,000,000 Ordinary Shares	100%	-
Dounreay Site Restoration Limited	Building D2003, Dounreay, Thurso, Caithness, KW14 7TZ	United Kingdom	50 Ordinary Shares	-	50%
Magnox Limited	Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RQ	United Kingdom	65 Ordinary Shares	-	65%
Research Sites Restoration Limited	Oldbury Technical Centre, Oldbury Naite, Thornbury, South Gloucestershire, BS35 1RQ	United Kingdom	65 Ordinary Shares	-	100%
Babcock Integration LLP	33 Wigmore Street, London, W1U 1QX	United Kingdom	1 Ordinary Share	1.64%	-
Cavendish Nuclear Japan KK	GYB Akihabara, Room 405, Kandasuda-cho 2-25, Tokyo, Japan	Japan	2 Ordinary Shares	100%	-

Notes to the financial statements *(continued)*

27 Ultimate parent undertaking

The Company's immediate parent company is Babcock Services Group 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