

**Babcock Corporate Services Limited**

**Annual report and financial statements**

**For the year ended 31 March 2019**

**Company registration number:**

**04415588**



---

## **Babcock Corporate Services Limited**

### **Directors and advisors**

#### **Current directors**

I Urquhart  
F Martinelli  
K Goodman  
W Mason  
S Parker  
I Connell

#### **Company secretary**

Babcock Corporate Secretaries Limited

#### **Registered office**

33 Wigmore Street  
London  
W1U 1QX

#### **Independent auditors**

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

---

## **Babcock Corporate Services Limited**

### **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 activity of the Company is to provide IT and related services to fellow subsidiaries.

#### **Review of the business**

|                               | 2019<br>£000 | 2018<br>£000 |
|-------------------------------|--------------|--------------|
| Revenue                       | 78,327       | 71,629       |
| Profit for the financial year | 1,081        | 2,359        |

During the year, the Company's core business activities continued to perform in line with expectations. Revenue increased in the year due to the wider adoption of centrally provided services across the Group.

#### **Financial Position**

The company has decreased total equity to £202.2m (2018: £204.2m) with the profitable trading performance being offset by a £3.0m dividend payment.

#### **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.

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, which does not form part of this report.


#### **Future developments**

There are no plans to alter significantly the business of the Company. Future growth is expected to be in line with that of the Babcock group as a whole.

#### **Key performance indicators**

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

On behalf of the Board



I Connell

Director

24 December 2019

Registered number 04415588

---

## **Babcock Corporate Services Limited**

### **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 £3,000,000 was paid during the year (2018: £11,000,000). No final dividends are recommended.

#### **Future developments**

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

#### **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in 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.

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 36 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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.

##### *Credit risk*

Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

##### *Liquidity risk*

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

##### *Interest rate cash flow risk*

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

##### *Price risk*

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

---

## **Babcock Corporate Services Limited**

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

#### **Directors**

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

I Urquhart  
F Martinelli  
K Goodman  
W Mason  
S Parker  
I Connell

#### **Employment of disabled persons**

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

#### **Employee involvement**

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

#### **Safety policy**

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

#### **Research and development**

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

#### **Environment**

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

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

---

## **Babcock Corporate Services Limited**

### **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 this information.

---

## **Babcock Corporate Services Limited**

### **Directors' report for the year ended 31 March 2019 *(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 2014 and remain in force.

#### **Reappointment of independent auditors**

PricewaterhouseCoopers LLP were reappointed as auditors at the Annual General Meeting

On behalf of the board



I Connell

**Director**

24 December 2019

---

## **Babcock Corporate Services Limited**

### **Independent auditors' report to the members of Babcock Corporate Services Limited**

#### **Report on the audit of the financial statements**

##### **Opinion**

In our opinion, Babcock Corporate Services 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 and financial statements (the "Annual Report"), which comprise: the Statement of financial position as at 31 March 2019; the Income statement, the Statement of comprehensive income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

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

##### **Independence**

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

##### **Conclusions relating to going concern**

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.

---

## **Babcock Corporate Services Limited**

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

#### **Reporting on other information**

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

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

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

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

#### **Strategic report and Directors' report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 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' responsibilities set out on page 5, 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

---

## Babcock Corporate Services Limited

### Independent auditors' report to the members of Babcock Corporate Services Limited (continued)

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

#### Use of this report

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

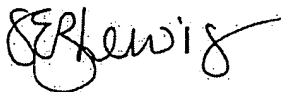
#### Other required reporting

##### Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Sasha Lewis (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
24 December 2019

## Babcock Corporate Services Limited

### Income statement

for the year ended 31 March 2019

|  | Note | 2019<br>£000        | 2018<br>£000        |
|--|------|---------------------|---------------------|
| Revenue  | 4    | 78,327              | 71,629              |
| Cost of sales  |      | <u>(78,821)</u>     | <u>(71,264)</u>     |
| <b>(Loss) / profit on ordinary activities before interest and taxation</b> |      | <b>(494)</b>        | <b>365</b>          |
| Finance income   | 5    | 2,605               | 2,590               |
| Finance costs  | 5    | <u>(896)</u>        | <u>(847)</u>        |
| <b>Profit on ordinary activities before income tax</b>                     | 6    | <b>1,215</b>        | <b>2,108</b>        |
| Income tax (charge) / credit   | 9    | <u>(134)</u>        | <u>251</u>          |
| <b>Profit for the financial year</b>                                       |      | <b><u>1,081</u></b> | <b><u>2,359</u></b> |

All of the above results derive from continuing operations.

### Statement of comprehensive income

for the year ended 31 March 2019

|  | Note | 2019<br>£000        | 2018<br>£000        |
|--|------|---------------------|---------------------|
| <b>Profit for the financial year</b>   |      | <b><u>1,081</u></b> | <b><u>2,359</u></b> |
| <b>Other comprehensive (expense)/ income:</b>                                |      |                     |                     |
| <i>Items that will not be subsequently reclassified to income statement:</i> |      |                     |                     |
| (Loss) / gain on re measurement of net defined benefit obligation            | 19   | (131)               | 95                  |
| Tax on net defined benefit obligation  | 9    | 25                  | (18)                |
| Impact of change in UK tax rate  | 9    | <u>(3)</u>          | <u>5</u>            |
| <b>Total comprehensive income for the financial year</b>                     |      | <b><u>972</u></b>   | <b><u>2,441</u></b> |

## Babcock Corporate Services Limited

### Statement of financial position as at 31 March 2019

|  | Note | 2019<br>£000     | 2018<br>£000     |
|--|------|------------------|------------------|
| <b>Non-current assets</b>                                      |      |                  |                  |
| Intangible assets  | 10   | 69,837           | 69,625           |
| Tangible fixed assets  | 11   | 13,671           | 16,242           |
| Amounts due from group undertakings                            | 12   | 2,485            | 2,485            |
| Pension asset  | 19   | 789              | 951              |
| Deferred tax   | 13   | 1,487            | 1,599            |
|  |      | <u>88,269</u>    | <u>90,902</u>    |
| <b>Current assets</b>  |      |                  |                  |
| Trade and other receivables                                    | 12   | 268,344          | 262,673          |
| Cash and cash equivalents                                      |      | -                | 29               |
|  |      | <u>268,344</u>   | <u>262,702</u>   |
| <b>Current Liabilities</b>                                     |      |                  |                  |
| Trade and other payables – amounts falling due within one year | 14   | <u>(154,283)</u> | <u>(149,208)</u> |
| <b>Net current assets</b>                                      |      | <u>114,061</u>   | <u>113,494</u>   |
| <b>Total assets less current liabilities</b>                   |      | <u>202,330</u>   | <u>204,396</u>   |
| Provisions for liabilities                                     | 15   | <u>(126)</u>     | <u>(164)</u>     |
| <b>Net assets</b>  |      | <u>202,204</u>   | <u>204,232</u>   |
| <b>Equity</b>  |      |                  |                  |
| Called up share capital  | 16   | 181,369          | 181,369          |
| Share premium  |      | 14,510           | 14,510           |
| Retained earnings  |      | <u>6,325</u>     | <u>8,353</u>     |
| <b>Total shareholders' funds</b>                               |      | <u>202,204</u>   | <u>204,232</u>   |

The notes on pages 13 to 36 are an integral part of these financial statements.

The financial statements on pages 10 to 36 were approved by the board of directors and signed on its behalf by:



I Connell  
Director

24 December 2019

---

**Babcock Corporate Services Limited****Statement of changes in equity**  
*for the year ended 31 March 2019*

|   | <b>Called-up<br/>share<br/>capital<br/>£000</b> | <b>Share<br/>premium<br/>account<br/>£000</b> | <b>Retained<br/>earnings<br/>£000</b> | <b>Total<br/>£000</b> |
|---|---|---|---------------------------------------|-----------------------|
| <b>Balance at 1 April 2017</b>                        | <b>181,369</b>                                  | <b>14,510</b>                                 | <b>16,912</b>                         | <b>212,791</b>        |
| Profit for the financial year                         | -   | -   | 2,359                                 | 2,359                 |
| Other comprehensive income<br>for the financial year  | -   | -   | 82                                    | 82                    |
| <b>Total comprehensive<br/>income</b>                 | <b>-</b>  | <b>-</b>                                      | <b>2,441</b>                          | <b>2,441</b>          |
| Dividend paid   | -   | -   | (11,000)                              | (11,000)              |
| <b>Balance at 31 March 2018</b>                       | <b>181,369</b>                                  | <b>14,510</b>                                 | <b>8,353</b>                          | <b>204,232</b>        |
| Profit for the financial year                         | -   | -   | 1,081                                 | 1,081                 |
| Other comprehensive<br>expense for the financial year | -   | -   | (109)                                 | (109)                 |
| <b>Total comprehensive<br/>income</b>                 | <b>-</b>  | <b>-</b>                                      | <b>972</b>                            | <b>972</b>            |
| Dividend paid   | -   | -   | (3,000)                               | (3,000)               |
| <b>Balance at 31 March 2019</b>                       | <b>181,369</b>                                  | <b>14,510</b>                                 | <b>6,325</b>                          | <b>202,204</b>        |

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

#### **1 General information**

Babcock Corporate Services Limited is a private company limited by shares which is incorporated and domiciled in England. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

#### **2 Summary of significant accounting policies**

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

##### **Basis of preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention. 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 Vosper Thornycroft (UK) 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) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

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

#### **Adoption of new and revised standards**

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

IFRS 9, 'Financial Instruments' has been adopted in the year (effective 1 January 2018) and replaces IAS 39. The standard introduces new requirements for classifying and measuring financial instruments. The adoption of IFRS 9 has not had any impact on the financial position of the Company. Accordingly prior year comparatives have not been restated.

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 from providing services is recognised in the accounting period in which the services are rendered. Revenue recognised represents income derived from contracts with customers for the provision of 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.

#### ***Performance obligations***

Contracts are assessed to identify each promise to transfer a service or a series of distinct services that are substantially the same and have the same pattern of transfer to the customer. 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 services provided by the Company can result in contracts with one performance obligation.

#### ***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 services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the 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.

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

##### *Revenue and profit recognition*

Performance obligations are satisfied, and revenue recognised, as control of 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 revenue is recognised at a point in time due to the nature of the company's activities.

##### **Intangible assets**

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

###### *Computer software*

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the company are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee cost and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

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 ten years.

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

##### **Tangible Fixed Assets**

Tangible fixed assets are shown at cost less subsequent depreciation and 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 Tangible fixed assets over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

|                                  |               |
|----------------------------------|---------------|
| Fixtures, fittings and equipment | 6.6% to 33.3% |
|----------------------------------|---------------|

Tangible fixed assets are 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.

##### **Trade receivables**

Trade and other receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment.

The company assesses on a forward looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

##### **Cash and cash equivalents**

Cash and cash equivalents include bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

##### **Taxation**

###### **(a) Current income tax**

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

###### **(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither 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.

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

##### **Taxation *(continued)***

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

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

##### **Pensions costs and other post-retirement benefits**

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

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

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

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

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

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

##### **Financial assets**

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

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

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

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

##### **Financial assets (continued)**

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

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

##### **Financial liabilities**

Basic financial liabilities, including trade and other payables, Bank loans and overdrafts and Amounts due to group undertakings that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

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

##### **Foreign currencies**

Items included in the financial statements of the company are measured using the currency of the primary economic environment in which the company operates. The financial statements are presented in 'Pounds Sterling' (£), which is also the company's functional currency.

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

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

##### **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 onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

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

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 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 estimates have had the most significant effect on amounts recognised in the financial statements.

#### 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 19 for the disclosures of the defined benefit pension scheme.

#### 4 Revenue

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

|                          | 2019<br>£000  | 2018<br>£000  |
|--------------------------|---------------|---------------|
| By area of activity:     |               |               |
| Rendering of IT services | <u>78,327</u> | <u>71,629</u> |
|                          | <b>78,327</b> | <b>71,629</b> |
| By geographical area:    |               |               |
| United Kingdom           | 73,129        | 66,866        |
| Europe                   | 3,897         | 2,524         |
| Australia                | <u>1,301</u>  | <u>2,239</u>  |
|                          | <b>78,327</b> | <b>71,629</b> |

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 5 Finance income and costs

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| <b>Finance income:</b>                           |              |              |
| Exchange gain                                    | 18           | -            |
| Pension income                                   | 24           | 19           |
| Loan interest receivable from group undertakings | 2,563        | 2,571        |
|  | <u>2,605</u> | <u>2,590</u> |
| <b>Finance costs:</b>                            |              |              |
| Bank interest                                    | 142          | 128          |
| Exchange loss                                    | 17           | 38           |
| Loan interest payable to group undertakings      | 737          | 681          |
|  | <u>896</u>   | <u>847</u>   |

#### 6 Profit on ordinary activities before income tax

Profit on ordinary activities before income tax is stated after charging:

|   | 2019<br>£000 | 2018<br>£000 |
|---|--------------|--------------|
| Depreciation of tangible fixed assets         | 6,649        | 5,627        |
| Amortisation of intangible assets             | 6,476        | 4,167        |
| Operating lease charges – land and buildings  | 378          | 421          |
| Operating lease charges – plant and machinery | 22           | 14           |

Cost of sales for the year ended 31 March 2019 also includes research and development tax credits of £240,000 (2018: £1,047,000).

Auditors' remuneration has been borne by another group entity.

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

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 7 Staff costs

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

|                               | 2019<br>Number | 2018<br>Number |
|-------------------------------|----------------|----------------|
| <b>By activity:</b>           |                |                |
| Management and administration | 412            | 327            |
|                               | <u>412</u>     | <u>327</u>     |

Their aggregate remuneration comprised:

|                               | 2019<br>£000  | 2018<br>£000  |
|-------------------------------|---------------|---------------|
| Wages and salaries            | 16,911        | 13,709        |
| Social security costs         | 1,843         | 1,511         |
| Other pension costs (note 19) | 1,781         | 959           |
|                               | <u>20,535</u> | <u>16,179</u> |

Included in other pension costs are £404,000 (2018: £197,000) in respect of the defined benefit schemes and £1,377,000 (2018: £762,000) 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 costs are subsequently recharged to those business entities.

#### 8 Directors' remuneration

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

|   | 2019<br>£000 | 2018<br>£000 |
|---|--------------|--------------|
| The remuneration of the directors which was paid by the Company was as follows: |              |              |
| Emoluments (including benefits in-kind)   | 169          | 175          |
| Defined contribution pension scheme   | 15           | 15           |
|   | <u>184</u>   | <u>190</u>   |

Only one director receives remuneration from the Company (2018: one) and therefore represents the highest paid director. This director also exercised share options under long term incentive plans in both the current and prior year.

All of the other directors 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.

---

**Babcock Corporate Services Limited****Notes to the financial statements****9 Income tax (charge) / credit****Tax (charge) / credit included in income statement**

|   | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|---|----------------------|----------------------|
| <b>Current tax:</b>                                   |                      |                      |
| UK Corporation tax on profits for the year            | -                    | -                    |
| <b>Current tax charge for the year</b>                | -                    | -                    |
| <b>Deferred tax:</b>                                  |                      |                      |
| Origination and reversal of timing differences        | (146)                | 280                  |
| Adjustment in respect of prior years                  | (4)                  | 4                    |
| Impact of change in UK tax rate                       | 16                   | (33)                 |
| <b>Total deferred tax (charge) / credit (note 13)</b> | <b>(134)</b>         | <b>251</b>           |
| <b>Tax (charge) / credit on profit</b>                | <b>(134)</b>         | <b>251</b>           |

**Tax charge included in other comprehensive income**

|   | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|---|----------------------|----------------------|
| <b>Current tax</b>  | -                    | -                    |
| <b>Deferred tax:</b>  |                      |                      |
| - Impact of actuarial gains on pension liability                              | 25                   | (18)                 |
| - Impact of change in tax rates   | (3)                  | 5                    |
| <b>Tax credit / (charge) included in other comprehensive income (note 13)</b> | <b>22</b>            | <b>(13)</b>          |

---

**Babcock Corporate Services Limited****Notes to the financial statements****9 Income tax (charge) / credit (continued)**

Tax charge 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<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| <b>Profit before taxation</b>  | <b>1,215</b> | <b>2,108</b> |
| Profit multiplied by standard UK corporation tax rate of 19% (2018: 19%) | 231          | 400          |
| Effects of:  |              |              |
| Group relief claimed for nil consideration                               | (85)         | (680)        |
| Adjustments arising in respect of deferred tax for prior years           | 4            | (4)          |
| Impact of change in UK tax rate  | (16)         | 33           |
| <b>Total tax (charge) / credit for the year</b>                          | <b>134</b>   | <b>(251)</b> |

In the UK 2016 Budget it was announced that the UK corporation tax rate will reduce to 18% from April 2020. It was subsequently announced in the 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.

**10 Intangible assets**

|  | Software<br>£000 |
|--|------------------|
| <b>Cost</b>                                    |                  |
| At 1 April 2018                                | 96,531           |
| Additions                                      | 6,688            |
| At 31 March 2019                               | <b>103,219</b>   |
| <b>Accumulated amortisation and impairment</b> |                  |
| At 1 April 2018                                | 26,906           |
| Amortisation of software                       | 6,476            |
| At 31 March 2019                               | <b>33,382</b>    |
| <b>Net book value</b>                          |                  |
| At 31 March 2019                               | <b>69,837</b>    |
| At 31 March 2018                               | 69,625           |

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 ten years. Intangible assets amortisation is recorded in cost of sales in the income statement.

---

**Babcock Corporate Services Limited****Notes to the financial statements****11 Tangible fixed assets**

|                                 | <b>Fixtures,<br/>Fittings &amp;<br/>Equipment<br/>£000</b> |
|---------------------------------|--|
| <b>Cost</b>                     |  |
| At 1 April 2018                 | 37,871   |
| Additions                       | <u>4,078</u>   |
| <b>At 31 March 2019</b>         | <u><b>41,949</b></u>                                       |
| <b>Accumulated depreciation</b> |  |
| At 1 April 2018                 | 21,629   |
| Charge for the year             | <u>6,649</u>   |
| <b>At 31 March 2019</b>         | <u><b>28,278</b></u>                                       |
| <b>Net book value</b>           |  |
| <b>At 31 March 2019</b>         | <u><b>13,671</b></u>                                       |
| <b>At 31 March 2018</b>         | <u><b>16,242</b></u>                                       |

Depreciation is recorded in cost of sales in the income statement.

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 12 Trade and other receivables

|  | 2019<br>£000   | 2018<br>£000   |
|--|----------------|----------------|
| <b>Amounts falling due within one year:</b>  |                |                |
| Trade receivables                            | 391            | 284            |
| Amounts owed by group undertakings           | 257,324        | 252,202        |
| Amounts owed by joint venture undertakings   | -              | 1              |
| Other receivables                            | -              | 43             |
| Prepayments and accrued income               | 10,629         | 10,143         |
|  | <b>268,344</b> | <b>262,673</b> |
| <b>Amounts due after more than one year:</b> |                |                |
| Amounts owed by group undertakings           | 2,485          | 2,485          |

Amounts owed by group undertakings are unsecured.

There are three major loans (2018: three) to group companies:

- A loan of £227,467,000 (2018: £227,467,000) is repayable on demand and bears interest at a rate of one hundred and thirteen basis points.
- A loan totalling £9,500,000 (2018: £9,500,000) is repayable on demand, with no interest charge.
- A loan of £2,485,000 is repayable after more than one year with no interest charge.

Other amounts owed by group undertakings are repayable on demand with no interest charge.

Amounts due from group undertakings are stated after provisions for impairment of £1,498,000 (2018: £1,498,000). Such provision has been made under the expected credit loss model.

# Babcock Corporate Services Limited

## Notes to the financial statements

### 13 Deferred taxation

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

| Deferred tax assets/ (liabilities)             | Accelerated capital allowances<br>£000 | Pension<br>£000 | Other<br>£000 | Total<br>£000 |
|--|--|-----------------|---------------|---------------|
| At 1 April 2017                                | 1,475                                  | (119)           | 5             | 1,361         |
| - Credited / (charged) to the income statement | 278                                    | (29)            | 2             | 251           |
| - (Charged) to other comprehensive income      | -                                      | (13)            | -             | (13)          |
| At 1 April 2018                                | 1,753                                  | (161)           | 7             | 1,599         |
| - (Charged) / credited to the income statement | (133)                                  | 6               | (7)           | (134)         |
| - Credited to other comprehensive income       | -                                      | 22              | -             | 22            |
| At 31 March 2019                               | 1,620                                  | (133)           | -             | 1,487         |

### 14 Trade and other payables – amounts falling due within one year

|   | 2019<br>£000   | 2018<br>£000   |
|---|----------------|----------------|
| <b>Amounts falling due within one year:</b>   |                |                |
| Bank overdraft                                | 3,384          | 13,550         |
| Trade creditors                               | 11,583         | 12,940         |
| Amounts owed to parent and group undertakings | 129,233        | 114,128        |
| Taxation and social security                  | 524            | 420            |
| UK corporation tax payable                    | 233            | 473            |
| Other payables                                | 1,258          | 29             |
| Accruals and deferred income                  | 8,068          | 7,668          |
|   | <b>154,283</b> | <b>149,208</b> |

With the exception of one group loan, amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand. Within the group loans is one loan (2018: one) of £15m (2018: £15m) which accrues interest at 6 month Libor plus 400 basis points, payable every six months.

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 17(a)).

---

**Babcock Corporate Services Limited****Notes to the financial statements****15 Provisions for liabilities**

|                                  | <b>Dilapidations<br/>provision<br/>£000</b> |
|----------------------------------|---|
| At 1 April 2017                  | 382   |
| Utilised in year                 | (218)                                       |
| At 1 April 2018                  | <b>164</b>                                  |
| Charged to the income statement  | -   |
| Released to the income statement | -   |
| Utilised in the year             | (38)  |
| <b>At 31 March 2019</b>          | <b>126</b>                                  |

*Dilapidations provisions*

Dilapidations provisions relate to commitments in respect of leased property. These are based on the assessment of future costs and are assessed with reference to past experience. Dilapidations provisions have not been discounted. The provisions are expected to be fully utilised during the year ending 31 March 2020.

**16 Called Up Share capital**

|  | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|--|----------------------|----------------------|
| <b>Allotted and fully paid</b>                             |                      |                      |
| 181,369,347 ordinary shares of £1 each (2018: 181,369,347) | <b>181,369</b>       | <b>181,369</b>       |

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 17 Guarantees and financial commitments

##### a) Contingent liabilities

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

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

##### b) Operating lease commitments

At 31 March 2019, the Company had future minimum rental payable under non-cancellable operating leases as follows:

|  | <b>2019<br/>Land and<br/>buildings<br/>£000</b> | <b>2019<br/>Other<br/>£000</b> | <b>2018<br/>Land and<br/>buildings<br/>£000</b> | <b>2018<br/>Other<br/>£000</b> |
|--|---|--------------------------------|---|--------------------------------|
| Future minimum rentals payable under non-cancellable operating leases: |   |                                |   |                                |
| - within one year  | -   | <b>14</b>                      | -   | 9                              |
| - between two and five years   | -   | <b>18</b>                      | -   | 2                              |
| - after five years   | -   | -                              | -   | -                              |
|  | -   | <b>32</b>                      | -   | <b>11</b>                      |

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

##### c) Capital Commitments

At 31 March 2019 the Company had capital commitments of £nil (2018: nil).

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 18 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 Ascent Flight Training (Management) Limited, Babcock Dyncorp Limited and in the prior year, Babcock 4S Limited in which Babcock International Group PLC hold a 50%, 80% and 80.1%, shareholding respectively.

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

|   | <b>Sales to<br/>related<br/>party<br/>£000</b> | <b>Purchases<br/>from<br/>related<br/>party<br/>£000</b> | <b>Amounts<br/>owed by<br/>related<br/>party<br/>£000</b> | <b>Amounts<br/>owed to<br/>related<br/>party<br/>£000</b> |
|---|--|--|---|---|
| <i>Related party</i>                        |  |  |   |   |
| Ascent Flight Training (Management) Limited | 18   | -  | 5   | -   |
| Babcock Dyncorp Limited                     | 3  | -  | -   | -   |

Transactions entered into and trading balances outstanding at 31 March 2018 are as follows:

|   | <b>Sales to<br/>related<br/>party<br/>£000</b> | <b>Purchases<br/>from<br/>related<br/>party<br/>£000</b> | <b>Amounts<br/>owed by<br/>related<br/>party<br/>£000</b> | <b>Amounts<br/>owed to<br/>related<br/>party<br/>£000</b> |
|---|--|--|---|---|
| <i>Related party</i>                        |  |  |   |   |
| Ascent Flight Training (Management) Limited | 7  | -  | -   | -   |
| Babcock 4S Limited                          | 2  | -  | -   | -   |
| Babcock Dyncorp Limited                     | 7  | -  | 1   | -   |
| Mouchel Babcock Education Services Limited  | 50   | -  | -   | -   |

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

**Notes to the financial statements**

**19 Pension asset**

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees as a member of the Babcock International Group Pension Scheme at a cost of £1,377,000 (2018: £762,000). The Company is also a contributing employer to a defined benefit scheme, the "Babcock International Group Pension Scheme (the 'BIG Pension Scheme')". The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme which have been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the scheme 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 for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increasing normal retirement age in line with state pension ages and increasing 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.

**Guaranteed minimum pension in the United Kingdom**

On 26 October, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. The past service cost of £13.6m reflect the estimate of the extent to which the judgement crystallises additional liabilities for the group pension schemes.

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 19 Pension asset *(continued)*

##### BIG 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:

|                                     | 2019<br>% | 2018<br>% |
|-------------------------------------|-----------|-----------|
| <b>Major assumptions</b>            |           |           |
| 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<br>Years | 2018<br>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          |

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 19 Pension asset (continued)

The changes to the Babcock International Group Plc balance sheet at 31 March 2019 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2019, if the assumptions were sensitised by the amounts below, would be:

|  | Defined<br>benefit<br>obligations<br>2019<br>£000 | Income<br>statement<br>2019<br>£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)                               |

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<br>£'000 | 2018<br>£'000 |
|--|---------------|---------------|
| Equities                                     | 444,412       | 310,191       |
| Property                                     | 136,657       | 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                                | 1,468,975     | 1,490,978     |
| Active position on longevity swaps           | (60,111)      | (50,150)      |
| Total assets                                 | 1,408,864     | 1,440,828     |
| Present market value of liabilities - funded | (1,359,140)   | (1,380,628)   |
| Gross pension surplus                        | 49,724        | 60,200        |

The Babcock Corporate Services Limited net pension assets of £789,000 (2018: £951,000) represent 1.6% (2018: £1.6%) of the Babcock Group International PLC Net Pension Surplus.

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

Registered number 04415588

Page 33

---

## Babcock Corporate Services Limited

### Notes to the financial statements

#### 19 Pension asset (continued)

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.

| <b>Analysis of amount charged to the income statement<br/>in Babcock International Group Plc</b> | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|--|----------------------|----------------------|
| Current service cost   | 9,615                | 10,253               |
| Incurred expenses  | 1,965                | 2,232                |
| Past service cost  | 13,646               | -                    |
| Settlement   | 220                  | -                    |
| Total included within operating profit   | 25,446               | 12,485               |
| Net interest income  | (1,523)              | (1,194)              |
| <b>Total charged to the income statement</b>   | <b>23,923</b>        | <b>11,291</b>        |

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 £404,000 for service cost (2018: £197,000), and net interest income of £24,000 (2018: net income £19,000).

| <b>Analysis of amount included in Babcock<br/>International Group Plc statement of<br/>comprehensive income ("SOCl")</b> | <b>2019<br/>£000</b> | <b>2018<br/>£000</b> |
|--|----------------------|----------------------|
| Actuarial loss recognised in the SOCl  | (4,076)              | (4,170)              |
| Experience gains   | 3,181                | 13,688               |
| Other (losses)   | (8,667)              | (439)                |
|  | <b>(9,562)</b>       | <b>9,079</b>         |

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £131,000 (2018: gain £95,000).

The equity investments and bonds are valued at bid price.

---

**Babcock Corporate Services Limited****Notes to the financial statements****19 Pension asset (continued)****Reconciliation of present value of scheme assets in  
Babcock International Group Plc**

|                        | 2019<br>£000 | 2018<br>£000 |
|------------------------|--------------|--------------|
| At 1 April             | 1,440,828    | 1,416,009    |
| Interest cost          | 36,495       | 36,252       |
| Employee contributions | 272          | 404          |
| Employer contributions | 23,009       | 18,090       |
| Benefits paid          | (102,320)    | (76,476)     |
| Settlement             | (2,761)      | -            |
| Actuarial gain         | 13,341       | 46,549       |
| At 31 March            | 1,408,864    | 1,440,828    |

**Reconciliation of present value of scheme liabilities**

|  | 2019<br>£000 | 2018<br>£000 |
|--|--------------|--------------|
| At beginning of the year               | 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 loss / (gain) – demographics | (21,380)     | 11,172       |
| Actuarial (gain) / loss – financial    | 47,464       | (7,003)      |
| Experience losses                      | (3,181)      | 33,301       |
| Benefits paid                          | (102,320)    | (76,476)     |
| Settlement                             | (2,541)      | -            |
| Past service cost                      | 13,646       | -            |
| At the end of the year                 | 1,359,140    | 1,380,628    |

---

## **Babcock Corporate Services Limited**

### **Notes to the financial statements**

#### **20 Ultimate parent undertaking**

The Company's immediate parent company is Vosper Thornycroft (UK) 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