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Babcock Integrated Technology Limited

Annual Report

For the year ended 31 March 2019

Company registration number:

6717269

Contents	**Page(s)**

Directors and advisors

Current Directors
I Urquhart

J Hall

J Howie

D Jones

M Jones (appointed 1st April 2018)

Company secretary
Babcock Corporate Secretaries Limited
J Wood (resigned 18th January 2019)

Registered office
33 Wigmore Street
London
W1U 1QX

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Principal bankers
The Royal Bank of Scotland PLC
5th Floor, Bath Street
Glasgow
G2 4RS

Strategic report

The directors present their Strategic report on Babcock Integrated Technology Limited 'the Company' for the year ended 31 March 2019.

Principal activities

The principal activity of the Company is the design, supply, manufacture, installation, support and management of specialist mechanical handling equipment projects and systems engineering, principally within the defence industry.

Review of the business

	2019	2018
	£000	£000
Turnover	**172,815**	147,653
Profit for the financial year	**9,510**	256,220
Total shareholders' funds	**338,803**	264,994

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

In the year, revenue growth of 17% has been achieved, but that has been gained through an increase in the new product support business, which comes with lower margins than the design and manufacturing work that has been the core of the business historically. This, in parallel with 2017/18 including a number of one off contingency releases following milestone completions, has resulted in a lower operating margin in 2018/19.

The key projects with which the business was engaged in during the year, were in submarine support, both in the UK and the rest of the world. Manufacture of a weapons handling system for the Astute class submarines, design and manufacturing activities for the Dreadnought submarine contract, continued work on various systems for the Queen Elizabeth aircraft carriers, equipment management contracts and service provision made up the majority of the UK based contract revenue. The manufacture associated with the weapons handling and discharge system for the Republic of Korea Navy, continued support to the Canadian submarine programme and the S80 class submarine for the Spanish Navy were the key drivers of the non UK revenue.

The contract for the Maritime Systems Support Partner awarded to Babcock in May 2017 had a full year of operation for the Type 45 Destroyers and has seen the level of support for the Queen Elizabeth Class of Aircraft Carriers increase as the first ship finished sea trials and the second in class (Prince of Wales) continues to finish the commissioning activities for going to sea late in 2019. Over the year the core service has continued to develop the technical baseline for the equipment and provide the technical support, assistance and spares management across the Type 45 Destroyers and the QEC Aircraft Carriers.

The Equipment Management service has seen both revenue and profit increase compared to the previous years as the business continues to mature and improve delivery performance across the contracts in hand.

The Dreadnought design continued to progress, with the handling and control systems going through their design reviews before manufacture. The manufacturing of the weapons launch tube module was completed and delivered for the port side in February 2019. Boat two long lead items for the weapons launch tube module is now on order, with deliveries taking place during 2019.

Strategic report *(continued)*

Review of the business *(continued)*

During the year there was continued activity in the facility for a weapons handling and launch system for the Korean Navy's Jangbogo submarine, which saw the installation into the boat completed with harbour acceptance trials being undertaken ready for sea acceptance trials to commence on Boat 1. The manufacture and factory acceptance has been completed at our supplier (Hyundai Heavy Industries) facilities for the second boat set of handling equipment ready to transport to the customer for installation. The third boat set of equipment is now starting to see manufacturing activities increase in line with the boat programme.

In Canada, the Company provides services from its location in the UK, and also has employees based in the Canadian dockyards offering specialist expertise in areas of engineering and waterfront support. In 2018/19 work continued on the re-fit of the fourth in class submarine (Cornerbrook) and the preparation for the next boat to return for its extended dock working period for the maintenance work is underway.

Work is progressing on the Astute class submarine programme. Activities saw manufacturing for Boat 7 throughout 2018/19 and last of class spares being ordered.

The in-service contracts for the UK submarine equipment continue to be successful with the 5 year tenure completing and a 6th year extension placed to enable a new 5 year contract to be agreed ready for an April 2020 start. This new contract will be let under single source conditions, and due to current good performance and relationship, there is minimal risk associated with this contract award.

The Type 26 air weapons handling system contract is progressing with the assembly, factory acceptance and functional testing completed for the first ship set during 2018/19. Further Type 26 contracts continued to be executed for Ships Lifts and Heligrids during 2018/19.

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 Company and its customers operate around the world, utilising relationships within Australia, Canada, Western Europe and Asia. While benefiting from the opportunities in these regions, the Company and its customers are exposed to the political and business risks associated with international operations, such as sudden changes in regulation, expropriation of assets, imposition of trade barriers, limits on the export of currency and volatility of prices, taxes and currencies. The principal risk and uncertainty facing the Company is the availability of government funding to support existing and future defence activities both in the UK and internationally. The Company maintains a policy of building good working relationships with its customer base, so as to gain advanced understanding of potential funding constraints.

The directors manage this risk by meeting on a regular basis to discuss these risks.

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

Strategic report *(continued)*

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Marine, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 40 to 42 of the Group's report, which does not form part of this report.

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities. The financial year 2019/20 will be important in terms of achieving an order for the 4th boat for the Korean Navy's Jangbogo submarine programme. An order for the second boat set of equipment on the Vanguard replacement submarine, Dreadnought, is expected later in the year. The winning of these contracts in 2018/19 was stated in the prior year Annual report. However, due to strategic prioritisation of boat sets 1-3, the Korean customer has delayed placement of boat 4 by 18 months. The full order for the second Vanguard replacement equipment has been delayed, as the MoD concentrate on production of boat set 1.

Work will continue to increase on the Maritime Systems Support Partner contract with the second aircraft carrier entering sea trials by the end of 2019. The Equipment Management business will maintain customer relationships to increase the volumes of spares and repairs seen in 2018/19, with improved turnaround times to maintain a consistent upward trend in performance.

On 1st April 2019 a number of contracts were novated to the Company from Babcock Land Ltd.

On behalf of the board.

M Jones

Director

27th June 2019

Directors' report

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

Dividends

Dividends received during the year from LGE Process Ltd were nil (2018: £11,000,000). Dividends received during the year from Babcock Integration LLP were nil (2018: £3,028,187). Dividends declared during the year to the Company's immediate parent company Babcock Marine Holdings (UK) Limited were nil (2018: £36,393,000).

Financial risk management

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

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

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

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

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

Directors' report *(continued)*

Financial risk management *(continued)*

Interest rate cash flow risk
The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances, which accrue 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.

Directors

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

I Urquhart
J Hall
J Howie
D Jones
M Jones (appointed 1st April 2018)

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 is maintained.

Research and development

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

Directors' report *(continued)*

Environment

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

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.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protection for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Directors' report *(continued)*

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

On behalf of the board

M Jones

Director

27th June 2019

Independent auditors' report to the members of Babcock Integrated Technology Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Integrated Technology 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 (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.

Independent auditors' report to the members of Babcock Integrated Technology 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 8, 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.

Independent auditors' report to the members of Babcock Integrated Technology Limited *(continued)*

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Craig Sullivan

Craig Sullivan (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
27 June 2019

Babcock Integrated Technology Limited

Income statement
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	**172,815**	147,653
Cost of sales		**(142,304)**	(108,779)
Gross profit		**30,511**	38,874
Administrative expenses		**(11,132)**	(8,817)
Operating profit	6	**19,379**	30,057
Income from shares in group undertakings		**-**	14,028
Profit before interest and taxation		**19,379**	44,085
Finance income	5	**3,120**	2,710
Finance costs	5	**(4,487)**	(4,100)
Profit on disposal of investments		**-**	218,504
Impairment of investments	13	**(4,836)**	-
Other finance income- pensions	25	**46**	27
Profit before income tax		**13,222**	261,226
Income tax expense	10	**(3,712)**	(5,006)
Profit for the financial year		**9,510**	256,220

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2019

	2019 £000	2018 £000
Profit for the financial year	**9,510**	256,220
Other comprehensive (expense) / income:		
Items that may be subsequently reclassified to income statement:		
Fair value adjustment of foreign exchange hedges	**196**	(988)
Items that will not be subsequently reclassified to income statement:		
Gain on remeasurement of net defined benefit obligation	**292**	215
Tax on net defined benefit obligation	**(53)**	(32)
Total comprehensive income for the year	**9,945**	255,415

Statement of financial position
as at 31 March 2019

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	11	**14,485**	14,094
Tangible assets	12	**14,100**	10,431
Investments	13	**277,797**	282,564
Other receivables due after one year	14	**5,775**	5,365
		312,157	312,454
Current assets			
Inventories	15	**2,301**	1,544
Trade and other receivables	16	**170,558**	140,661
Other financial assets	19	**297**	371
Pension asset	25	**1,490**	1,383
Cash and cash equivalents		**16,084**	15,245
		190,730	159,204
Trade and other payables – amounts falling due within one year	17	**(158,120)**	(200,544)
Other financial liabilities	19	**(11)**	(304)
Net current assets / (liabilities)		**32,599**	(41,644)
Total assets less current liabilities		**344,756**	270,810
Provisions for liabilities	18	**(182)**	(455)
Other payables due after one year	26	**(5,771)**	(5,361)
Net assets		**338,803**	264,994
Capital and reserves			
Called up share capital	21	**40**	40
Share premium account		**94,864**	31,000
Other reserves		**286**	90
Retained earnings		**243,613**	233,864
Total shareholders' funds		**338,803**	264,994

The notes on pages 16 to 41 are an integral part of these financial statements.

The financial statements on pages 13 to 41 were approved by the board of directors and signed on its behalf by:

M Jones
Director
27th June 2019

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

	Note	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 April 2017		40	31,000	1,078	13,854	45,972
Profit for the year		-	-	-	256,220	256,220
Other comprehensive (expense) / income		-	-	(988)	183	(805)
Dividends paid	22	-	-	-	(36,393)	(36,393)
Balance at 31 March 2018		40	31,000	90	233,864	264,994
Profit for the year		-	-	-	9,510	9,510
Other comprehensive income		-	-	196	239	435
Share premium issued	28	-	63,864	-	-	63,864
Balance at 31 March 2019		40	94,864	286	243,613	338,803

Notes to the financial statements

1 General information

Babcock Integrated Technology Limited is a limited company which is incorporated and domiciled in the UK. 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. The Company has adopted FRS 101 in these financial statements.

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, as modified by the revaluation of land and buildings and certain financial assets and liabilities measure 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 Marine Holdings (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'

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

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

(a) Performance obligations

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

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

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 Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group 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.

The Company operates in a partnering environment with some customers and certain contracts 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

(e) Principal versus agent considerations

The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on the risks and rewards associated with the procurement activity. Factors that influence this judgement include the level of responsibility the Group has under the contract for the provision of the goods or services, the extent to which the Group is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Group exercises responsibility in determining the selling price of the goods and services.

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 11.

(a) Research and development

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment are shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Plant and equipment	5% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

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. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Trade receivables

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

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)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Pensions costs and other post-retirement benefits

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

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

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

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

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

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

Foreign currencies

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

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

2 Summary of significant accounting policies *(continued)*

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.

Finance leases

Assets under finance leases are capitalised, and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

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, and it is probable that an outflow of economic benefit 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.

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

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

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

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations, where the outflow of resources is considered less than probable or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements, but are disclosed in Note 29.

2 Summary of significant accounting policies *(continued)*

Derivative financial instruments

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

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

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

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.

Defined benefit pension scheme

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

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.

Notes to the financial statements *(continued)*

4 Revenue

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

	2019 £000	2018 £000
By area of activity:		
Sales of goods – transferred at a point in time	29,472	24,414
Sale of goods – transferred over time	119,929	100,359
Provision of services – transferred over time	23,414	22,880
	172,815	147,653

	2019 £000	2018 £000
By geographical area:		
United Kingdom	136,156	107,420
Europe	10,538	4,826
USA & Canada	11,282	8,723
Rest of World	14,839	26,684
	172,815	147,653

5 Finance income and finance costs

	2019 £000	2018 £000
Finance income:		
Capitalised interest	**99**	33
Loan interest receivable from group undertakings	**3,021**	2,677
	3,120	2,710
Finance expenses:		
Bank interest	**(10)**	-
Loan interest payable to group undertakings	**(4,477)**	(4,100)
	(4,487)	(4,100)

Notes to the financial statements *(continued)*

6 Operating profit

Operating profit is stated after charging / (crediting):

	2019 £000	2018 £000
Loss on disposal of property, plant and equipment	**11**	14
Research and development recognised as an expense	**419**	1,029
Operating lease charges		
- land and buildings	**975**	874
- other	**63**	34
Depreciation (note 12)	**1,640**	904
Impairment of intangible assets (note 11)	**205**	196
Impairment of investments (note 13)	**4,836**	-
Foreign exchange (gain)	**(1)**	(42)
Audit fees payable to the Company's auditors	**34**	33
Cost of stocks recognised as an expense (included in cost of sales)	**85,387**	56,055

Cost of sales for the year ended 31 March 2019 also includes research and development tax credits of £2,280,000 (2018: £2,143,000)

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.

7 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	**773**	676
Management and administration	**93**	91
	866	767

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	**38,583**	33,144
Social security costs	**4,075**	3,527
Other pension costs (note 25)	**2,161**	1,789
	44,819	38,460

Notes to the financial statements *(continued)*

7 Staff costs *(continued)*

Included in wages and salaries is a total expense of share based payments of £253,000 (2018: £311,000) of which £253,000 (2018: £311,000) arises from transactions accounted for as equity settled share based payment transactions.

Included in other pension costs are £196,000 (2018: £185,000) in respect of the defined benefit schemes and £1,965,000 (2018: £1,604,000) 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.

8 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	As restated 2018
	£000	£000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	**406**	657
Aggregate payments in respect of long term incentive schemes	**226**	295
Defined contribution pension scheme	**40**	30
	672	982

During the year one (2018: two) directors remunerated by Babcock Integrated Technology Limited exercised share options under long term incentive plans and one (2018: two) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to two directors (2018: one) under the Money Purchase pension scheme.

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

	2019	As restated 2018
	£000	£000
Emoluments (excluding pension contributions)	**277**	347
Aggregate payments in respect of long term incentive schemes	**226**	281
Company contributions to Money Purchase Pensions Schemes	**30**	30

The highest paid director exercised shares under long term incentive plans (2018: the highest paid director exercised shares under long term incentive plans).

Notes to the financial statements *(continued)*

9 Share based payments

The charge to the income statement 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.

During the year the total credit relating to employee share based payment plans was £54,000 (2018: charge £99,000) all of which related to equity-settled share based payment transactions. After tax, the income statement credit was £44,000 (2018: charge £80,000).

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

Notes to the financial statements *(continued)*

10 Income tax expense

Tax expense included in income statement

	2019 £000	2018 £000
Current tax:		
UK Corporation tax on profits for the year	3,432	5,185
Double tax relief	-	-
Overseas tax	-	-
Current tax charge for the year	3,432	5,185
Deferred tax:		
Origination and reversal of timing differences	20	288
Adjustment in respect of prior years	266	(441)
Impact of change in UK tax rate	(6)	(26)
Total deferred tax credit (note 20)	280	(179)
Tax on profit	3,712	5,006

Tax expense included in other comprehensive income

	2019 £000	2018 £000
Deferred tax:		
- Tax impact of actuarial gains on pension liability	55	41
- Impact of change in UK tax rate	(2)	(9)
Tax expense included in other comprehensive income	53	32
Tax expense included in equity		
Current tax	-	-
Total tax expense included in equity	-	-

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

Notes to the financial statements *(continued)*

10 Income tax expense *(continued)*

	2019 £000	2018 £000
Profit before income tax	**13,222**	261,226
Profit before income tax multiplied by standard UK corporation tax rate of 19% (2018: 19%)	**2,512**	49,633
Effects of:		
Income not subject to UK taxation	**940**	(44,160)
Adjustment in respect of deferred tax for prior year	**266**	(441)
Impact in change in UK tax rate	**(6)**	(26)
Overseas tax	-	-
Double tax relief	-	-
Total tax charge for the year	**3,712**	5,006

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 remeasured at 17% as this is the tax rate that will apply on reversal.

11 Intangible assets

	Goodwill £000	Development £000	Total £000
Cost			
At 1 April 2018	**17,921**	**980**	**18,901**
Additions	-	596	596
At 31 March 2019	**17,921**	**1,576**	**19,497**
Accumulated Impairment			
At 1 April 2018	**(4,480)**	**(327)**	**(4,807)**
Impairment	-	(205)	**(205)**
At 31 March 2019	**(4,480)**	**(532)**	**(5,012)**
Net book value			
At 31 March 2019	**13,441**	**1,044**	**14,485**
At 31 March 2018	13,441	653	14,094

Goodwill above arose on the acquisition of the trade and assets of Strachan and Henshaw Limited, and the Defence business of BNS Nuclear Services Limited on 1 April 2009.

12 Tangible assets

Cost	Freehold land and property £000	Assets under construction £000	Plant and equipment £000	Total £000
At 1 April 2018	3,091	1,081	9,878	**14,050**
Additions	-	1,942	3,382	5,324
Transfers	-	(1,081)	1,081	-
Disposals	-	-	(1,653)	(1,653)
At 31 March 2019	**3,091**	**1,942**	**12,688**	**17,721**
Accumulated depreciation				
At 1 April 2018	(675)	-	(2,944)	**(3,619)**
Charge for the year	(83)	-	(1,557)	(1,640)
Disposals	-	-	1,638	1,638
At 31 March 2019	**(758)**	**-**	**(2,863)**	**(3,621)**
Net book value				
At 31 March 2019	**2,333**	**1,942**	**9,825**	**14,100**
At 31 March 2018	2,416	1,081	6,934	10,431

13 Investments

	2019 Shares in group undertakings £000	2018 Shares in group undertakings £000
Cost		
At 1 April	282,564	64,038
Additions	69	249,526
Impairment	(4,836)	-
Disposals	-	(31,000)
Carrying amount at 31 March	277,797	282,564

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

On the 18th July 2018, the company acquired a 100% shareholding in Babcock Korea Ltd for a consideration of £68,500.

Dividends received during the year from LGE Process Ltd nil (2018: £11,000,000). No dividends were received during the year from Babcock Integration LLP (2018: £3,028,187).

Notes to the financial statements *(continued)*

14 Other receivables due after one year

	2019 £000	2018 £000
Amounts owed by group undertakings	**5,775**	5,365
	5,775	5,365

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

There is one major loan (2018: one) to group companies

15 Inventories

	2019 £000	2018 £000
Finished goods and goods for resale	**2,301**	1,544
	2,301	1,544

16 Trade and other receivables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade receivables	**9,924**	13,990
Amounts due by group undertakings	**146,000**	121,295
Amounts due from customers for contract work	**12,976**	4,571
Other receivables	**291**	35
Prepayments and accrued income	**1,367**	770
	170,558	140,661

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

There are eight major loans (2018: six) to group companies:

- A loan of £25,220,000 (2018: £25,220,000) is repayable on demand, the interest rate is 4.955% (2018 4.829%).
- A loan of £25,000,000 (2018: £25,000,000) is repayable on demand, the interest rate is 4.955% (2018 4.829%).
- Six (2018: four) loans totalling £68,864,000 (2018: £46,114,000) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £42,043 (2018: nil).

16 Trade and other receivables (continued)

	Amounts due for contract work £000	Accrued Income £000	Total £000
At 31 March 2018	4,571	490	**5,061**
Reclassification – IFRS 15 Transition	-	-	-
At 1 April 2018 - restated	4,571	490	5,061
Transfers from contract assets recognised at the beginning of the year to receivables	(4,092)	(490)	(4,582)
Increase due to work done not transferred from contract assets	12,497	382	12,879
At 31 March 2019	**12,976**	**382**	**13,358**

17 Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade creditors	**14,420**	17,151
Amounts owed to parent and group undertakings	**70,878**	136,794
Payments received on account	**34,033**	20,765
Taxation and social security	**1,078**	991
Corporation tax	**6,683**	5,629
Deferred tax liability (Note 20)	**386**	53
Other payables	**13,612**	6,001
Accruals and deferred income	**17,030**	13,160
	158,120	200,544

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

There are six major loans (2018: seven) to group companies:

- A loan of nil (2018: £45,039,000) is repayable on demand, the interest rate is nil (2018 4.829%).
- A loan of nil (2018: £2,662,000) is repayable on demand, the interest rate is nil (2018 4.829%).
- A loan of £8,606,000 (2018: £8,606,000) is repayable on demand, the interest rate is 4.955% (2018 4.829%).
- A loan of £29,175,000 (2018: £29,175,000) is repayable on demand, the interest rate is 4.955% (2018 4.829%).
- Four (2018: three) loans totalling £14,395,000 (2018: £14,712,000) are repayable on demand, with no interest charge.

Notes to the financial statements *(continued)*

17 Trade and other payables *(continued)*

	Contract cost accrual £000	Advance payments £000	Total £000
At 31 March 2018	10,595	20,765	**31,360**
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(19,413)	(19,413)
Increase due to cash received, excluding amounts recognised as revenue	-	32,681	32,681
Amounts accrued	12,010	-	12,010
Amounts utilised	(8,686)	-	(8,686)
At 31 March 2019	**13,919**	**34,033**	**47,952**

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 29).

18 Provisions for liabilities

	Maintenance Warranties £000	Contract Provision £000	Total £000
At 1 April 2018	190	265	**455**
Charged to the income statement	78	9	87
Released to the income statement	(95)	(265)	(360)
At 31 March 2019	**173**	**9**	**182**

19 Other financial assets and other financial liabilities

Included in Derivative financial instruments at fair value:

	31 March 2019		31 March 2018	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Forward FX contracts – cash flow hedges	**297**	**11**	371	304
Total	**297**	**11**	371	304

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available with compliance to IFRS.

20 Deferred taxation

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

Deferred tax asset /(liabilities)	**Accelerated capital allowances £000**	**Other £000**	**Total £000**
At 1 April 2018:	**(209)**	**156**	**(53)**
- (Charged) / credited to the income statement	(286)	6	(280)
- Charged to other comprehensive income	-	(53)	(53)
At 31 March 2019	**(495)**	**109**	**(386)**

21 Called up Share capital

	2019 £000	2018 £000
Authorised and fully paid		
40,200 (2018: 40,100) ordinary shares of £1 each	40	40

22 Dividends paid

Dividends declared and paid during the year were nil (2018: £36,393,000), this is equivalent to nil per share (2018: £909.825). There are no plans for a final dividend.

23 Guarantees and financial commitments

a) Operating lease commitments

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

	2019 Land and buildings £000	**2019 Other £000**	2018 Land and buildings £000	2018 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	**2,427**	**222**	942	46
- between two and five years	**10,289**	**792**	9,827	59
- after five years	**18,524**	**300**	19,806	-
	31,240	**1,314**	30,575	105

The entity leases various offices and warehouses 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.

b) Capital Commitments

At 31 March 2019 the Company had capital commitments of £1,780,000 (2018: £2,382,000) comprising of the refurbishment of a building at Bristol Business Park (£1,686,000) and the purchase of small value capital items (£94,000).

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.

25 Pension commitments

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

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

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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.

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:

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.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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 31 March 2019 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 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)

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

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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	**136,657**	120,844
Absolute return and multi strategy funds	**16,135**	4,833
Bonds	**326,937**	485,697
Matching assets	**544,835**	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 credited 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 £347,000 for service cost plus incurred expenses (2018: £287,000), £409,000 for past service cost (2018: nil), £7,000 for settlement (2018: nil), and net interest income of £46,000 (2018: £27,000).

Notes to the financial statements *(continued)*

25 Pension commitments *(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 £292,000 (2018: £215,000.)

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 on assets	**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	**22,008**	46,988
At 31 March	**1,468,976**	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)
Settlement	**(2,541)**	-
Past service cost	**13,646**	-
At 31 March	**1,359,140**	1,380,628

25 Pension commitments (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 £1,490,000 (2018: £1,383,000).

26 Other payables due after one year

	2019 £000	2018 £000
Amounts owed to group undertakings	5,771	5,361
	5,771	5,361

Amounts owed to group undertakings are unsecured and repayable on demand.
There is one major loan (2018: one) to a group company.

27 Related undertakings

All related undertakings for the Company are as listed below:

Company Name & Address	Country	Interest	Direct %	Ultimate%
Strachan & Henshaw Canada 45 O'Connor Street, Suite 1500, Ottawa, ON, K1P 1A4, Canada	Canada	£1 Ordinary shares	100%	100%
Liquid Gas Equipment Limited William Rankine Building, Rosyth Business Park, Rosyth, Fife, KY11 2YD Scotland	United Kingdom	£1 Ordinary shares	100%	100%
Babcock Support Services (Canada) Inc. 44 Chipman Hill, Suite 1000, PO Box 7289, Station A, Saint John, NB E2L 4S6, Canada	Canada	CAD 1 Ordinary shares	100%	100%
Babcock Integrated Technology (Korea) Limited 33 Wigmore Street, London, W1U 1QX	United Kingdom	£1 Ordinary shares	100%	100%
Context IS Ltd 11 Westferry Circus, London, E14 4HD	United Kingdom	£1 Ordinary shares	100%	100%
Context Information Security GmbH Emst-Ludwig-Ring 2, Bad Nauheim, 61231, Amtsgericht Friedberge (Hessen), Germany	Germany	€1 Ordinary shares	100% Indirect	100%
Babcock IP Management (Number one) Ltd 33 Wigmore Street, London, W1U 1QX	United Kingdom	£0.01 Ordinary shares	0.01%	1%
Babcock Integrated Technology GmbH Berliner Platz 12, 41061, Moenchengladbach, Germany	Germany	€1 Ordinary shares	100%	100%
Babcock Korea Ltd 706, 7th Fl. Pan Ocean Building, 102, Jungang-Daero, Jung-gu, Busan, South Korea	Korea	KRW 10,000 Ordinary shares	100%	100%

Notes to the financial statements *(continued)*

28 Share premium account

Babcock Marine Holdings (UK) Limited subscribed 100 ordinary shares of £1 each in the capital of the Company at the total price of £63,864,000

29 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).

30 Immediate and Ultimate parent undertakings

The Company's immediate parent company is Babcock Marine Holdings (UK) Limited, a limited 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's Financial Statements are available from the following address:
The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX