Babcock DSG Ltd

Annual Report
For the year ended 31 March 2019

Company Registered Number:
09329025

Directors and advisors

Current Directors

N Borrett
J Cohen
J Davies
J Dixon
M Lawton
R Pemberton
R Taylor
I Urquhart

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
Southampton
SO14 3TJ

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 Company is engaged in the maintenance of military vehicles. The principal contract is with the Ministry of Defence for the maintenance, repair, overhaul and storage of military vehicles and light weapons for the British Armed Forces.

Review of the business

	Year ended 31 March 2019 £000	Year ended 31 March 2018 £000
Revenue	331,639	371,986
(Loss)/profit for the financial year	(7,028)	7,245

DSG was acquired from the MOD on 31 March 2015. The Company's principal contract is the *service provision and transformation contract*. The process of transformation on the main contract has continued to progress well and the contract continues to perform in-line with expectations.

The results of the company reflect the one-off royalty's credit in the prior year of £9m and a decrease in volume of materials and spares purchased on behalf of the customer.

Future developments

The directors are confident about the future trading prospects of the Company in light of its current strong order book position and other market opportunities.

Principal risks and uncertainties

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

The key risks and uncertainties affecting the Company are considered to be related to the political and regulatory environment. The directors manage this risk by meeting on a regular basis to discuss these risks.

The Company has largely one major contract. The Company, Sector and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks of this contract and the other smaller contracts.

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 for the year ended 31 March 2019 *(continued)*

Key performance indicators

Babcock DSG Ltd is a part of the Land sector within Babcock International Group PLC. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

The growth and performance of Land, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 43 to 45 of the Group's report, which does not form part of this report.

Financial risk management

Information on the Financial Risk Management of the Company can be found in the Directors' report.

On behalf of the board

Mark Lawton

Director

19 December 2019

Directors' report for the year ended 31 March 2019

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

Future developments

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

Dividends

No dividends were paid or proposed during the current period.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in contract risk, credit risk, price risk, liquidity risk and interest rate cash flow 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 department. 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.

Contract risk

The Company has largely one major contract. The Company, Sector and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks of this contract and the other smaller contracts.

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.

Interest rate cash flow risk

The Company has interest-bearing liabilities. 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' report for the year ended 31 March 2019 *(continued)*

Financial risk management *(continued)*

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.

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

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

Nicolas Anderson	resigned 30 April 2018
Nicholas Borrett	
Jonathan Cohen	
John Davies	
James Mark Dixon	appointed 01 May 2018
Mark Lawton	
Robert Pemberton	
Richard Taylor	
Iain Urquhart	

Employment of disabled persons

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

Employee involvement

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

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

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.

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' 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 2012 and remain in force.

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.

Reappointment of auditors

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

On behalf of the board

Mark Lawton

Director

19 December 2019

Registered number 09329025

Independent auditors' report to the members of Babcock DSG Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Babcock DSG Ltd'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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Independent auditors' report to the members of Babcock DSG Ltd *(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 in respect of the financial statements set out on page 6, 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 DSG Ltd *(continued)*

Responsibilities for the financial statements and the audit *(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.

Christopher Solomides (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
20 December 2019

Income Statement
for the Year Ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	**331,639**	371,986
Cost of sales - excluding amortisation of contract intangible		(325,260)	(360,299)
Cost of sales - amortisation of contract intangible	5	(14,095)	(14,261)
Total cost of sales		(339,355)	(374,560)
Gross loss		**(7,716)**	(2,574)
Administrative expenses - excluding exceptional credit		(1,357)	(1,541)
Administrative credit - Exceptional release of royalty accrual	5	-	9,050
Administrative (expenses)/credit		(1,357)	7,509
Operating (loss)/profit	5	**(9,073)**	4,935
Finance costs	6	(219)	(330)
(Loss)/profit before taxation		**(9,292)**	4,605
Income tax credit	9	2,264	2,640
(Loss)/profit for the financial year		**(7,028)**	7,245

All results derive from continuing operations.

The notes on pages 15 to 33 form an integral part of these financial statements.

Statement of Comprehensive Income
for the Year Ended 31 March 2019

	2019 £000	2018 £000
(Loss)/profit for the financial year	(7,028)	7,245
Other comprehensive (expense) / income: (net of tax)	-	-
Total comprehensive (expense)/income for the financial year	**(7,028)**	**7,245**

The notes on pages 15 to 33 form an integral part of these financial statements.

Balance Sheet

as at 31 March 2019

	Note	2019 £000	2018 restated £000
Fixed assets			
Intangible assets	*10*	91,941	100,608
Property, plant & equipment	*11*	7,421	8,201
		99,362	**108,809**
Current assets			
Inventories	*12*	20,450	19,924
Trade and other receivables - amounts falling due within one year	*13*	125,753	102,192
Trade and other receivables - amounts falling due after more than one year	*13*	1,625	1,949
Cash and cash equivalents		12,575	6,128
		160,403	**130,193**
Trade and other payables - amounts falling due within one year	*14*	**(106,528)**	**(73,061)**
Net current assets		**53,875**	**57,132**
Total assets less current liabilities		**153,237**	**165,941**
Provisions for liabilities	*15*	(14,664)	(20,340)
Net assets		**138,573**	**145,601**
Equity			
Called up share capital	*17*	-	-
Share premium account	*17*	147,619	147,619
Accumulated losses		(9,046)	(2,018)
Total shareholder's funds		**138,573**	**145,601**

The prior year balance sheet was restated following an asset reclassification, as explained in note 10.

The notes on pages 15 to 33 are an integral part of these financial statements.

The financial statements on pages 11 to 33 were authorised for issue by the board of directors on 19 December 2019 and were signed on its behalf.

Mark Lawton
Director
Babcock DSG Ltd

Registered number 09329025

Statement of Changes in Equity
for the Year Ended 31 March 2019

	Share premium account £000	Accumulated losses £000	Total £000
At 1 April 2017	**147,619**	**(9,263)**	**138,356**
Profit for the financial year	-	7,245	7,245
Other comprehensive (expense) / income: (net of tax)	-	-	-
Balance as at 31 March 2018	**147,619**	**(2,018)**	**145,601**
At 1 April 2018	147,619	(2,018)	145,601
Loss for the financial year	-	(7,028)	(7,028)
Other comprehensive (expense) / income: (net of tax)	-	-	-
Balance as at 31 March 2019	**147,619**	**(9,046)**	**138,573**

The notes on pages 15 to 33 form an integral part of these financial statements.

Notes to the financial statements
(forming part of the financial statements)

1 General Information

Babcock DSG Ltd is a private company, limited by shares 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 in the period 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, and 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, unless stated otherwise (note 17).

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 Land Limited and of its ultimate parent, Babcock International Group PLC. The results are included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

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

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) The following paragraphs of IAS 1, 'Presentation of financial statements': 10(d), 16, 40, 38 (a-d), 111 and 134-136
e) IAS 7, 'Statement of cash flows'
f) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
g) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

Adoption of new and revised standards

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Adoption of new and revised standards *(continued)*

The Company adopted IFRS 9 from 1 April 2018. In accordance with the transition provisions in the Standard, comparatives have not been restated. IFRS 9 requires the use of two criteria to determine the classification of financial assets: the entity's business model for the financial assets and the contractual cash flow characteristics of the financial assets. The Standard goes on to identify three categories of financial assets – amortised cost; fair value through profit or loss (FVTPL); and fair value through other comprehensive income (FVOCI). The adoption of IFRS 9 has not impacted the measurement of the Company's financial assets.

IFRS 16 is effective for the year ending 31 March 2020 and requires almost all operating leases to be capitalised on the balance sheet. Minimum future lease payments will be recognised as a lease liability with a corresponding right-of-use asset depreciated on a straight-line basis over the lease term. The operating lease charge will be replaced by a depreciation charge on the asset and an interest charge on the liability.

Going concern

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.

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. 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

***Revenue** (continued)*

c) Revenue and profit recognition

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

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

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

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

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

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis by suitably qualified and experienced 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)*

***Revenue** (continued)*

c) *Revenue and profit recognition (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, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, and the contract is expected to result in future net cash inflows.

e) *Contract mobilisation*

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

f) *Principal versus agent considerations*

The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on 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) *Acquired intangibles*

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships. The Company currently only recognises a contract intangible.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation period of 10 years represents the length of the contract in this case.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Intangible assets *(continued)*

b) Computer software

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

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the computer software 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.

Property, plant and equipment (PPE)

Property, plant and equipment is 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 PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Plant and equipment	6.6% 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.

Inventories 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.

Loans and receivables

Loans and receivables are recognised initially at fair value, net of transaction costs incurred. They are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the loan or receivable using the effective interest method.

Trade and other receivables

Trade and other 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.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

Financial Assets

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price.

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) 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 creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price.

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

Pensions costs and other post-retirement benefits

The Company participates in the MyCSP scheme of the Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay). The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

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.

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 substantively enacted by the statement of financial position 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

***Taxation** (continued)*

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively 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.

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 period 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

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

A provision for 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.

Notes to the financial statements *(continued)*

3 Critical accounting judgements

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.

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.

Revenue – sale of goods

Sale of goods revenue is recognised as 'principal' for the period of the contract from the point of transition of direct supplier payment from the MoD to Babcock DSG Ltd.

Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process which is ten years.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and is of United Kingdom origin and destination.

Revenue includes £193,939,000 (2018: £217,698,000) relating to the purchase of materials and spares on behalf of the customers. Revenues related to these items have been period costed.

	2019	2018
	£000	£000
Services under Long Term Contracts	**137,700**	154,288
Sale of goods	**193,939**	217,698
	331,639	371,986

Notes to the financial statements *(continued)*

5 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2019 £000	2018 £000
Staff costs (Note 7)	**61,584**	64,132
Depreciation - owned property, plant & equipment (Note 11)	**2,109**	2,137
Amortisation (Note 10)	**14,095**	14,261
Stock expensed charged to cost of sales - sale of goods	**193,939**	217,698
Stock expensed (credited)/charged to cost of sales - other	**(177)**	2,283
Operating lease charges - plant & equipment (Note 18)	**709**	702
Operating lease charges - other (Note 18)	**2,178**	2,463
Exceptional release of royalty accrual	**-**	(9,050)
Services provided by the Company's auditors:		
- fees payable for the audit	**81**	29

6 Finance costs

	2019 £000	2018 £000
Finance cost:		
Bank interest paid	**(219)**	(330)
	(219)	(330)

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:		
Operational and technical	**1,676**	1,720
Management and administration	**-**	10
	1,676	1,730

Notes to the financial statements *(continued)*

7 Staff costs *(continued)*

Their aggregate remuneration comprised:

	2019	2018
	£000	£000
Wages and salaries	50,517	51,401
Social security costs	4,470	5,185
Other pension costs	6,597	7,546
	61,584	64,132

Following the acquisition of the Company by Babcock Land Limited, a review was carried out to identify the synergies and savings across the enlarged Group. Redundancy of £1,936,000 (2018: £4,496,000) was charged to the income statement during the year.

8 Directors' remuneration

The remuneration of the directors which was paid by the Company was as follows:

	2019	2018
	£000	£000
Emoluments (including benefits-in-kind)	241	240
Defined contribution pension scheme	-	-
	241	240

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

	2019	2018
	£000	£000
Emoluments (excluding pension contributions)	241	240
Company pension contributions	-	-
	241	240

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

No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

During the year no (2018: none) directors remunerated by Babcock DSG Ltd exercised share options under long term incentive plans and no (2018: none) directors were entitled to receive share options under long term incentive plans.

Notes to the financial statements *(continued)*

9 Income tax credit

Tax credit included in the income statement

	2019 £000	2018 £000
Current tax		
UK Corporation tax on losses/(profit) for the year	-	-
Deferred tax (Note 16)		
Origination and reversal of timing differences	**(2,876)**	(2,735)
Adjustments in respect of prior year	**309**	(193)
Impact of change in the UK tax rate	**303**	288
Tax on (loss)/profit on ordinary activities	**(2,264)**	(2,640)

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 £000	2018 £000
(Loss)/profit on ordinary activities before tax	**(9,292)**	4,605
Tax on (loss)/profit on ordinary activities multiplied by standard UK Corporation tax rate of 19% (2018: 19%)	**(1,765)**	875
Effects of:		
Expenses not deductible for tax purposes	**10**	18
Group relief for nil consideration	**(1,121)**	(3,628)
Adjustments in respect of deferred tax for prior years	**309**	(193)
Impact of change in the UK tax rate	**303**	288
Total tax credit for the year	**(2,264)**	(2,640)

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.

Notes to the financial statements *(continued)*

10 Intangible assets

	Software	Acquired contract intangible	Total
	£000	£000	£000
Cost			
At 1 April 2018 - restated	2,443	140,951	143,394
Additions in year	5,428	-	5,428
At 31 March 2019	**7,871**	**140,951**	**148,822**
Accumulated amortisation			
At 1 April 2018	501	42,285	42,786
Charge for the year	-	14,095	14,095
At 31 March 2019	**501**	**56,380**	**56,881**
Net book value			
At 31 March 2019	**7,370**	**84,571**	**91,941**
At 31 March 2018	1,942	98,666	100,608

The acquired contract intangible is the estimated fair value at the date of acquisition from the MoD of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process which is ten years. At 31 March 2018, seven years remain.

The opening balance at 1 April 2018 has been restated following the reclassification of an asset under construction from property, plant and equipment to intangible assets. The cost and net book value of this asset at 1 April 2018 was £1,942,000.

Notes to the financial statements *(continued)*

11 Property, plant and equipment

	Plant & machinery £000
Cost	
At 1 April 2018 - restated	11,680
Additions in year	1,499
Disposals in year	(262)
At 31 March 2019	**12,917**
Accumulated depreciation	
At 1 April 2018	3,479
Charge for the year	2,109
Disposals in year	(92)
At 31 March 2019	**5,496**
Net book value	
At 31 March 2019	**7,421**
At 31 March 2018	8,201

The opening balance at 1 April 2018 has been restated following the reclassification of an asset under construction from property, plant and equipment to intangible assets. The cost and net book value of this asset at 1 April 2018 was £1,942,000.

12 Inventories

	2019 £000	2018 £000
Raw materials and consumables	**20,450**	19,924
	20,450	19,924

Notes to the financial statements *(continued)*

13 Trade and other receivables

	2019 £000	2018 re-presented £000
Amounts falling due within one year:		
Trade receivables	**8,827**	11,412
Contract balances	**58,998**	35,004
Amounts owed by Group undertakings	**51,238**	51,000
Other receivables	**76**	76
Corporation tax	**626**	506
Prepayments	**5,988**	4,194
	125,753	102,192
Amounts falling due after more than one year:		
Contract balances	**1,625**	1,949
	1,625	1,949

Amounts owed by Group undertakings includes a short term loan of £51,000,000 (2018: £51,000,000), this is non-interest bearing, unsecured and repayable on demand. Other amounts are non-interest bearing, unsecured and repayable on demand.

The prior year numbers have been re-presented following the implementation of IFRS 15 to separately identify the contract balances.

	Amounts due for contract work £000	Accrued Income £000	Capitalised contract costs £000	Total £000
At 31 March 2018	16,163	18,516	2,274	36,953
Transfers from contract assets recognised at the beginning of the year to receivables	(16,163)	(18,516)	-	(34,679)
Increase due to work done not transferred from contract assets	14,365	44,308	-	58,673
Amortisation of contract assets	-	-	(324)	(324)
At 31 March 2019	**14,365**	**44,308**	**1,950**	**60,623**

Notes to the financial statements *(continued)*

14 Trade and other payables

	2019	2018 re-presented
	£000	£000
Amounts falling due within one year:		
Trade payables	**28,198**	23,807
Amounts owed to group undertakings	**16,281**	4,877
Contract balances	**28,427**	2,853
Other taxation and social security	**5,816**	8,535
Other payables	**26,413**	31,208
Accruals	**1,393**	1,781
	106,528	73,061

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 18a).

Amounts owed to Group undertakings are unsecured and repayable on demand and include one loan for £14,550,000 (2018: nil). They accrue nil interest.

The prior year numbers have been re-presented following the implementation of IFRS 15 to separately identify the contract balances.

	Contract cost accruals £000
At 31 March 2018	2,853
Amounts accrued	28,427
Amounts utilised	(2,853)
At 31 March 2019	**28,427**

Notes to the financial statements *(continued)*

15 Provisions for liabilities

	Deferred tax	Contract provisions	Redundancy provisions	Total
	£000	£000	£000	£000
1 April 2017	19,568	1,167	3,119	23,854
Amounts utilised	-	(29)	(5,341)	(5,370)
Credited to the income statement	(2,640)	-	-	(2,640)
Charged to the income statement	-	-	4,496	4,496
At 31 March 2018	16,928	1,138	2,274	20,340

	Deferred tax	Contract provisions	Redundancy provisions	Total
	£000	£000	£000	£000
1 April 2018	16,928	1,138	2,274	**20,340**
Amounts utilised	-	(1,138)	(2,274)	**(3,412)**
Credited to the income statement	(2,264)	-	-	**(2,264)**
At 31 March 2019	**14,664**	**-**	**-**	**14,664**

Redundancy provisions

Following the acquisition of the Company by Babcock Land Limited, a review was carried out to identify the synergies and savings across the enlarged Group. During the year, £2,274,000 was utilised. No further provision was made.

Contract provision

Included within contract provisions is £nil (2018: £1,138,000) relating to the dilapidations arising on Company leased buildings.

16 Deferred Tax

The major components of the deferred tax liability are as follows:

Deferred tax (assets)/liabilities:

	Accelerated capital allowances	Other	Total
	£000	£000	£000
At 1 April 2018	156	16,772	16,928
- Charged/(credited) to the Income statement	132	(2,396)	(2,264)
Balance carried forward at 31 March 2019	**288**	**14,376**	**14,664**

Notes to the financial statements *(continued)*

17 Called up Share Capital

	2019	2019	2018	2018
	Share capital	**Share premium**	Share capital	Share premium
	£	**£**	£	£
Allotted, called-up and fully paid				
100 ordinary shares of £1 each	**100**	**-**	100	-
100 shares of £1,476,189 each	**-**	**147,619,000**	-	147,619,000
At 31 March 2019	**100**	**147,619,000**	100	147,619,000

On the 26 November 2014, DSG Land Equipment and Support Ltd was incorporated and share capital of 1 ordinary share at £1 was issued.

On the 31 March 2015, the Company was acquired by Babcock Land Limited. A further 99 ordinary shares at £1 were issued. Babcock Land Limited acquired the entire shareholding of Babcock DSG Ltd for an initial cash consideration of £140,000,000. Babcock Land Limited finalised its negotiations and the final settlement of £7,619,000 was agreed on the 23 March 2016 and paid in April 2016.

18 Guarantees and financial commitments

a) Contingent liabilities

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

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

b) Operating lease commitments

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

	2019	2019	2018	2018
	Land and buildings	**Vehicles, plant & equipment**	Land and buildings	Vehicles, plant & equipment
	£000	**£000**	£000	£000
Total commitments under non-cancellable operating leases expiring:				
within one year	2,178	709	2,463	702
between two and five years	8,710	750	9,601	826
after five years	6,865	-	4,800	-
	17,753	**1,459**	16,864	1,528

Notes to the financial statements *(continued)*

19 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 consolidated financial statements are publicly available.

20 Pension commitments

Defined Contribution Scheme

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 also operated several defined contribution schemes. The pension charge for the year includes contributions payable by the Company to these funds:

	2019 £000	2018 £000
Defined Contribution Scheme	587	461

At 31 March 2019, there was a creditor of £nil (2018: £nil) relating to unpaid pension contributions included within accruals in the statement of financial position.

Civil Service Pension Scheme

Employees transferred from the DSG Trading Fund after the acquisition of Babcock DSG Ltd are entitled to continuing membership of the My Civil Service Pension Scheme (MyCSP) part of the Government of Great Britain Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay).

The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

The latest actuarial valuation of the PCSPS was as at 31 March 2015 which identified that the scheme had a notional past service deficit of £5.5bn.

The pension contributions paid by the Company to the MyCSP scheme are paid at an average rate 19.3% (2018: 19.3%) of pensionable pay.

Notes to the financial statements *(continued)*

20 Pension commitments *(continued)*

Civil Service Pension Scheme *(continued)*

Pension costs for defined contribution schemes are as follows:

	2019	2018
	£000	£000
Civil Service Pension Scheme	6,119	7,085

At 31 March 2019, there was a creditor of £nil (2018: £nil) relating to unpaid MyCSP pension contributions included within accruals in the statement of financial position.

The Company expects to continue to pay contributions of an average rate of 19.3% of pensionable pay in the next financial year.

21 Ultimate parent undertaking

The immediate parent undertaking is Babcock Land Limited.

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