
Babcock Support Services Limited

**Annual Report
For the year ended 31 March 2019**

**Company Registration Number:
SC099884**



Babcock Support Services Limited

Directors and advisors

Current directors

G Adams
N Borrett
R Hardy
K Hayzen-Smith
D Jones
M Lawton
N Misell
I Urquhart
S Ward

Company Secretary

Babcock Corporate Secretaries Limited

Registered office

DWF LLP
110 Queen Street
Glasgow
Scotland
G1 3HD

Independent Auditors

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

Babcock Support Services Limited

Strategic report

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

Principal activities

The Company operates across a number of support services contracts; facilities management, equipment support and training services to the armed forces. It further provides a range of logistic and equipment support services for the British Army and Royal Air Force. It helps customers maintain, operate and improve their estates. Typical customers are public sector organisations with complex infrastructure portfolios to service. The Company also sells employee services to other group companies which attracts a margin on the employee costs.

Review of the business

	2019	2018
	£'000	£'000
Revenue	55,710	72,493
Profit for the financial year	844	7,222

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

The year on year decline in revenue is principally due to the completion of the construction phase of the principle contract.

The year on year decline in profits is principally driven by the lack of distributions received from Babcock Integration LLP which were received in the prior year and a decline in dividends received from Babcock DynCorp Limited compared to the prior year.

The directors consider the financial position of the company to be satisfactory.

Future development

With the prospective opportunities for which Babcock are bidding the directors are confident the outlook for 2019/20 remains positive.

Babcock Support Services Limited

Strategic report *(continued)*

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 Babcock International Group (the "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 contractual performance and the political and regulatory environment. The Company's business is susceptible to individual contract performance. All of the Company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The directors manage this risk by maintaining regular discussions with the relevant customers and controlling both direct and indirect expenditure as necessary.

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.

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 Aviation, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 46 to 48 of the Group's Annual 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



K Hayzen-Smith

Director

18 December 2019

Babcock Support Services Limited

Directors' report

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

Results and dividends

The Company's results for the year are set out in the income statement on page 11 showing a profit for the financial year of £844,000 (2018: profit of £7,222,000). At 31 March 2019, the Company had net assets of £392,176,000 (2018: £395,617,000). A review of the Company's business during the year, together with information on the Company's risks and uncertainties are provided in the Strategic report.

No dividends were paid or proposed during the current or comparative year.

Future developments

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

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate cashflow 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. Each department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

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

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.

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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 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:

G Adams	
N Borrett	
K Butler	resigned 20 April 2019
B Davey	appointed 21 January 2019, resigned 13 June 2019
R Hardy	
K Hayzen-Smith	
D Jones	
M Lawton	
N Misell	
I Urquhart	
S Ward	appointed 13 June 2019

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.

Babcock Support Services Limited

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 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 in respect of the financial statements

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
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are 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 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 at the date of signing the financial statements.

Babcock Support Services Limited

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.

Reappointment of auditors

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

On behalf of the board



K Hayzen-Smith

Director

18 December 2019

Babcock Support Services Limited

Independent auditors' report to the members of Babcock Support Services Limited **Report on the audit of the financial statements**

Opinion

In our opinion, Babcock Support Services Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report, 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 Support Services Limited
(continued)

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities 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.

Babcock Support Services Limited

Independent auditors' report to the members of Babcock Support Services 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.



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

20 December 2019

Babcock Support Services Limited

Income Statement

for the year ended 31 March 2019

	Note	2019 £'000	2018 £'000
Revenue	4	55,710	72,493
Cost of sales		(52,979)	(65,942)
Gross profit		2,731	6,551
Administrative expenses		(2,860)	(7,802)
Operating profit before exceptional items		390	2,395
Exceptional items – impairment of investments	12	(519)	(3,646)
Operating loss	5	(129)	(1,251)
Profit on sale of joint venture	6	-	695
Income from shares in group undertakings	12	509	8,481
Profit before interest and taxation		380	7,925
Finance income	7	2,346	1,938
Finance costs	7	(1,421)	(1,197)
Other finance costs – pension	21	(850)	(1,065)
Profit before income tax		455	7,601
Income tax income/(expense)	10	389	(379)
Profit for the financial year		844	7,222

Babcock Support Services Limited**Statement of Comprehensive Income**
for the year ended 31 March 2019

	<i>Note</i>	2019 £'000	2018 £'000
Profit for the financial year		844	7,222
Other comprehensive (expense)/income:			
Remeasurement of defined benefit obligation	21	(5,103)	12,218
Tax on defined benefit obligation		818	(2,127)
Other comprehensive (expense)/income for the year		(4,285)	10,091
Total comprehensive (expense)/income for the year		(3,441)	17,313

The notes on pages 15 to 46 are an integral part of these financial statements.

Babcock Support Services Limited

Balance sheet as at 31 March 2019

		2019	Restated ¹ 2018
	Note	£'000	£'000
Fixed assets			
Property, plant and equipment	11	146	340
Investments in group undertakings	12	2,179	2,706
		<u>2,325</u>	<u>3,046</u>
Current assets			
Trade and other receivables	13	652,656	630,822
		<u>652,656</u>	<u>630,822</u>
Trade and other payables – amounts falling due within one year	14	(222,966)	(205,707)
Net current assets		<u>429,690</u>	<u>425,115</u>
Total assets less current liabilities		<u>432,015</u>	<u>428,161</u>
Trade and other payables – amounts falling due after more than one year	15	(250)	(250)
Provisions for liabilities	16	(286)	(545)
Gross pension liabilities	21	(39,303)	(31,749)
Net assets		<u>392,176</u>	<u>395,617</u>
Equity			
Called up share capital	18	110	110
Share premium account		84,990	84,990
Retained earnings		307,076	310,517
Total equity		<u>392,176</u>	<u>395,617</u>

1. A prior year restatement reduced the pension liability by £4,609,000, and deferred tax asset by £785,000 against retained earnings as of 1 April 2017. Further information of the restatement can be found within note 21.

The notes on pages 15 to 46 are an integral part of these financial statements.

The financial statements on pages 11 to 46 were approved by the board of directors and signed on its behalf by:



K Hayzen-Smith
Director

18 December 2019

Babcock Support Services Limited

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

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total equity £'000
Balance at 1 April 2017	110	84,990	289,380	374,480
Restatement (note 21)	-	-	3,824	3,824
Restated balance at 1 April 2017	110	84,990	293,204	378,304
Profit for the financial year	-	-	7,222	7,222
Other comprehensive income for the year	-	-	10,091	10,091
Total comprehensive income for the year	-	-	17,313	17,313
Restated balance at 31 March 2018	110	84,990	310,517	395,617
Restated balance at 1 April 2018	110	84,990	310,517	395,617
Profit for the financial year	-	-	844	844
Other comprehensive expense for the year	-	-	(4,285)	(4,285)
Total comprehensive expense for the year	-	-	(3,441)	(3,441)
Balance at 31 March 2019	110	84,990	307,076	392,176

The notes on pages 15 to 46 are an integral part of these financial statements.

Babcock Support Services Limited

Notes to the financial statements

1 General information

Babcock Support Services Limited is a private company limited by shares which is incorporated in the UK and registered in Scotland. The address of the registered office is DWF LLP, 110 Queen Street, Glasgow, Scotland, G1 3HD.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. 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) and the Companies Act 2006.

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in pounds sterling which is the functional and presentational 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 area involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements is disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Defence & Security Holdings LLP 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

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) IFRS 7, 'Financial Instruments: Disclosures'.
- b) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosures of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- c) 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 (reconciliation between the carrying amount at the beginning and end of the period)
- d) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- e) IAS 7, 'Statement of cash flows'
- f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- i) Paragraphs 130(f) (ii), 130(f) (iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets (disclosures when the recoverable amount is fair value less costs of the disposal, assumptions involved in estimating recoverable amounts of cash generating unit containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts)
- j) The requirements of paragraph 45(b) and paragraphs 46 to 52 of IFRS2 'Share-based payments'.

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.

Babcock Support Services Limited

Notes to the financial statements (*continued*)

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. 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)

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 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).

Babcock Support Services Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Revenue (continued)

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

Exceptional items

Exceptional items are those items which are exceptional in nature or size. These include material acquisition costs and reorganisation costs.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings 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 borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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.

Babcock Support Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment (PPE) 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 machinery	2 to 15 years
Leasehold property	Lease term

Where PPE is purchased for specific projects and the remaining project life is less than the above periods, the asset is written off over the remainder of the project life.

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 in group undertakings

Investments are stated at cost less provision for impairment in value. Investments are impaired to the higher of net asset value or value in use.

Inventories

Inventories are 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.

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 balance sheet date.

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or 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 the 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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Babcock Support Services Limited

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

Pensions costs and other post-retirement benefits

The Company participates in two defined benefit schemes that shares risks between entities under common control. The defined benefit schemes 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 schemes are charged to the 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 schemes' liability is the present value of the defined benefit obligation at the reporting date less the fair value of the plan assets at the reporting date.

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

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.

Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loan and receivables is recognised using the original effective interest rate.

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.

Babcock Support Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Trade and other payables

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

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

Provisions for liabilities

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

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

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

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

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

Notes to the financial statements (continued)

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 reporting date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

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

a) Defined benefit pension schemes

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 21 for the disclosures of the defined benefit pension schemes.

b) Contract accounting

The Company uses the percentage of completion method of revenue recognition in some of its long term contracts. In these long term contracts 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.

c) Deferred tax

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements, with the following exceptions: Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforcement right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

d) Fixed asset investments

The Company holds investments at the fair value of the assets, liabilities and contract intangible acquired being the consideration paid at the date of acquisition. Any provision for impairment is assessed by management on a regular basis considering the future economic inflows that management believe will be realised from the investment.

Babcock Support Services Limited

Notes to the financial statements (continued)

4 Revenue

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

	2019 £'000	2018 £'000
By area of activity:		
Sale of goods – transferred at a point in time	307	300
Provision of services – transferred over time	6,058	15,365
Provision of services – transferred at a point in time	49,345	56,828
	55,710	72,493

5 Operating loss

Operating loss is stated after charging:

	2019 £'000	2018 £'000
Depreciation - owned property, plant & equipment (Note 11)	194	200
Operating lease charges	940	836
Inventory charges	665	629
Staff costs (Note 8)	19,879	25,053
Exceptional items – impairment of investments (Note 12)	519	3,646
Services provided by the Company's auditors:		
- fees payable for the audit	25	24

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.

6 Prior year profit on disposal of Joint Venture

At 31 March 2012 the Company had provided funding of £328,000 to the Building Schools for the Future Joint Venture. £172,000 of this balance was repaid during the year-ended 31 March 2013, and the balance remained £156,000 to 31 March 2017.

The Building Schools for the Future Joint Venture was disposed during the year ended 31 March 2018 and the £156,000 balance was eliminated on disposal. The profit on disposal was £695,000.

The Company received a dividend of £nil (2018: £nil) during the year from the Building Schools for the Future Joint Venture.

Babcock Support Services Limited**Notes to the financial statements (continued)****7 Finance income and costs**

	2019 £'000	2018 £'000
Finance income		
Other interest	439	-
Loan interest receivable from group undertakings	1,907	1,938
	<u>2,346</u>	<u>1,938</u>
Finance costs		
Bank interest	(378)	(196)
Loan interest payable to group undertakings	(1,043)	(1,001)
	<u>(1,421)</u>	<u>(1,197)</u>

8 Staff costs

The Company employs personnel directly. Particulars of these employees (including directors) are as shown below. Also, some of these employees' services are sold to Babcock Marine Rosyth Limited. The average monthly number of persons sold under this arrangement was 272 (2018: 323). The total cost included in the remuneration below was £15,443,598 (2018: £17,501,000).

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

	2019 Number	2018 Number
Production	289	399
Administration	68	100
	<u>357</u>	<u>499</u>

Their aggregate remuneration comprised:

	2019 £'000	2018 £'000
Wages and salaries	15,919	20,499
Social security costs	1,383	1,829
Other pension costs - defined contribution	638	827
Other pension costs - defined benefit	1,939	1,898
	<u>19,879</u>	<u>25,053</u>

Babcock Support Services Limited

Notes to the financial statements *(continued)*

9 Directors' remuneration

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

The emoluments of the single and highest paid director, including pension contributions, paid by the Company in respect of services provided to this Company were as follows:

	2019 £'000	2018 £'000
The remuneration of the director paid by the Company:		
Emoluments (including benefits-in-kind)	199	178
Defined contribution pension scheme	21	20
	<u>220</u>	<u>198</u>

There are no retirement benefits under SIPS money purchase schemes accruing for any active directors (2018: none).

During the year, the single and highest paid director (2018: one) remunerated by Babcock Support Services Limited exercised share options under long term incentive plans and one (2018: one) director was entitled to receive share options under long term incentive plans.

Babcock Support Services Limited

Notes to the financial statements (continued)

10 Income tax expense

Tax expense/(credit) included in income statement	2019 £'000	2018 £'000
Current tax:		
UK Corporation tax on profit for the year	-	747
Adjustment in respect of prior years	-	-
Current tax charge for the year	-	747
Deferred tax:		
Origination and reversal of timing differences	(362)	(314)
Adjustment in respect of prior years	(16)	(37)
Impact of change in tax rate	(11)	(17)
Total deferred tax credit (Note 17)	(389)	(368)
Income tax (credit)/expense	(389)	379

Tax (credit)/charge included in other comprehensive expense

Deferred tax:		
Tax impact of actuarial gains / losses on pension liability	(970)	2,321
Impact of change in tax rate	152	(194)
Tax (credit)/charge in other comprehensive expense	(818)	2,127

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

	2019 £'000	2018 £'000
Profit before income tax	455	7,601
Profit before tax at the standard UK corporation tax rate of 19% (2018: 19%)	86	1,444
Effects of:		
Income not taxable	4	(1,743)
Group relief surrendered for nil consideration	(452)	-
Expenses not deductible for tax purposes	-	732
Adjustment in respect of current tax for prior years	-	-
Adjustment in respect of deferred tax for prior years	(16)	(37)
Impact for change in UK tax rate	(11)	(17)
Total tax (credit)/charge for the year	(389)	379

Notes to the financial statements (continued)**10 Income tax expense (continued)**

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 Property, plant and equipment

	Leasehold property £'000	Plant and machinery £'000	Total £'000
Cost			
At 1 April 2018	1,390	812	2,202
Additions	-	-	-
At 31 March 2019	1,390	812	2,202
Accumulated depreciation			
At 1 April 2018	1,089	773	1,862
Charge for the year	187	7	194
At 31 March 2019	1,276	780	2,056
Net book amount			
At 31 March 2019	114	32	146
At 31 March 2018	301	39	340

Babcock Support Services Limited**Notes to the financial statements (continued)****12 Investments in Group undertakings**

	Total £'000
Cost	
At 1 April 2018	11,304
Disposals at cost	(8)
At 31 March 2019	11,296
Provision for impairment	
At 1 April 2018	8,598
Charge for the year	519
At 31 March 2019	9,117
Net book amount	
At 31 March 2019	2,179
At 31 March 2018	2,706

During the year, impairments of £519,000 (2018: £3,646,000) arose and were charged to the income statement. The impairments relate to the investments held in Babcock DynCorp Limited (2018: Babcock DynCorp Limited, Babcock Partners No 2010 Limited and Hibernia FM Limited).

During the year, the Company disposed of the investment in Babcock Support Services s.r.l. for proceeds equal to the cost of the investment totalling £8,000 on 21 January 2019.

The directors consider that the carrying value of all investments in Group undertakings is supported by their underlying net assets.

Babcock Support Services Limited

Notes to the financial statements (continued)

12 Investments in Group undertakings (continued)

During the year, the Company received distributions from Babcock Integration LLP of nil (2018: £5,122,000) and received dividends from Babcock DynCorp Limited of £509,000 (2018: £3,359,000).

The Company's subsidiary undertakings, joint ventures and other group investments are:

<u>Company</u>	<u>% of equity shares owned</u>	<u>Country of Registration</u>	<u>Principal Activities</u>
Air Power International Limited ¹	100%	Scotland	Dormant
Babcock DynCorp Limited ²	56%	England and Wales	Defence Services
Babcock Partners No 2010 Limited ²	100%	England and Wales	Dormant
Debut Services (Contracts) Limited ³	9%	England and Wales	Dormant
Debut Services (South West) Limited ³	50%	England and Wales	Activities of construction holding companies
Debut Services Limited ³	15%	England and Wales	Activities of construction holding companies
Devonport Management Limited ²	100%	England and Wales	Dormant
Babcock HSPS Trustees Limited ²	100%	England and Wales	Pension Trust (Dissolved 2 April 2019)
Babcock Money Purchase Trustees Limited ²	100%	England and Wales	Dormant (Dissolved 2 October 2018)
Peterhouse GmbH ⁴	100%	Germany	Defence Services
Babcock Support Services GmbH ⁴	100%	Germany	Defence services

Registered address

- 1 C/O DWF LLP, 110 Queen Street, Glasgow, G1 3HD
- 2 33 Wigmore Street, London, W1U 1QX
- 3 C/O Bovis Lend Lease Limited, 20 Triton Street, Regent's Place London, NW1 3BF
- 4 Berliner Platz 12, 41061, Mönchengladbach, Germany

Notes to the financial statements (continued)

13 Trade and other receivables

	2019	2018
	£'000	£'000
Amounts recoverable on contracts	1,354	1,040
Trade receivables	999	559
Amounts owed by Group undertakings	520,227	519,598
UK Corporation tax recoverable	121,649	99,260
Deferred tax (Note 17)	7,317	6,110
Other receivables	367	523
Prepayments & accrued income	743	3,732
	652,656	630,822

Amounts owed by Group undertakings includes short term loans of £100,000,000 (2018: £100,000,000); bearing an interest rate of UK LIBOR six monthly rate, plus one hundred basis points. The remaining balance of £420,277,000 (2018: £419,598,000) is non-interest bearing. Corporation tax recoverable represents the aggregate of tax payments made on behalf of other group companies, less the company's own tax charge, the balance of which is owed by other group undertakings.

Amounts owed by Group undertakings (unless stated above) are unsecured and repayable within one year. They accrue nil interest.

	Amounts due for contract work £'000	Accrued Income £'000	Capitalised contract costs £'000	Total £'000
At 31 March 2018	1,040	3,311	-	4,351
Reclassification – IFRS 15 Transition	-	-	-	-
31 March 2018 - restated	1,040	3,311	-	4,351
Transfers from contract assets recognised at the beginning of the year to receivables	(1,040)	(3,311)	-	(4,351)
Increase due to work done not recognised in the income statement	1,354	131	-	1,485
Amounts capitalised	-	-	-	-
Amortisation of contract assets	-	-	-	-
At 31 March 2019	1,354	131	-	1,485

Babcock Support Services Limited

Notes to the financial statements (continued)

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

	2019	2018
	£'000	£'000
Payments received on account of long term contracts	4,735	4,141
Trade payables	505	1,093
Amounts owed to Group undertakings	197,727	168,604
Other taxation and social security	188	286
Bank overdraft	16,474	24,964
Other payables	1,182	1,914
Accruals and deferred income	2,155	4,705
	222,966	205,707

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 20a).

Amounts owed to Group undertakings includes a short term loan of £21,300,000 (2018: £21,300,000); bearing an interest rate of UK LIBOR six monthly rate, plus four hundred basis points. The remaining balance of £170,209,000 (2018: £147,304,000) is non-interest bearing, unsecured and repayable on demand.

The bank overdraft is repayable on demand, unsecured and bears interest at 1% over base rate.

	Contract cost accrual £'000	Advance payments £'000	Deferred income £'000	Total £'000
At 31 March 2018	4,705	4,141	-	8,846
Revenue recognised that was included in contract liabilities at the beginning of the year	(3,072)	(1,256)	-	(4,328)
Increase due to cash received, excluding amounts recognised as revenue	480	-	-	480
Amounts accrued	-	1,850	-	1,850
Amounts utilised	-	-	-	-
Disposal	-	-	-	-
At 31 March 2019	2,113	4,735	-	6,848

Babcock Support Services Limited

Notes to the financial statements (continued)

15 Trade and other payables – amounts falling due after more than one year

	2019 £'000	2018 £'000
Cumulative preference shares of £1 each - 250,000 (2018: 250,000)	250	250
	<u>250</u>	<u>250</u>

Cumulative preference shares of £250,000 were issued on 4th June 2010 at an issue price of £1.00 per share. 50,000 A preference shares, 50,000 B preference shares, 50,000 C preference shares, 50,000 D preference shares and 50,000 E preference shares all of £1.00 each. The preference shares and the ordinary shares shall not rank *pari passu* in relation to receiving any dividends or other similar distributions.

The holders of the A preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into in March 2008 (the A Loan Agreement).

The holders of the B preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (defence division) under the loan agreement between the Company (defence division) and Babcock (UK) Holdings Limited entered into in March 2008 (the B Loan Agreement).

The holders of the C preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into on 26 March 2009 (the C Loan Agreement).

The holders of the D preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (defence division) under the loan agreement between the Company (defence division) and Babcock (UK) Holdings Limited entered into on 24 February 2010 (the D Loan Agreement).

The holders of the E preference shares shall be entitled to be paid a dividend equal in amount to the amount of the loan principle (if any) repaid by Babcock (UK) Holdings Limited to the Company (infrastructure division) under the loan agreement between the Company (infrastructure division) and Babcock (UK) Holdings Limited entered into on 24 February 2010 (the E Loan Agreement).

For as long as any amount of loan principle remains to be repaid under any of the five Loan Agreements, no dividend or other distribution shall be paid or made to holders of the ordinary shares and during this period the Company shall not initiate any other action that will deplete the distributable reserves of the Company below £32,000,000. There are no further dividend rights beyond the payment of the loan principle as disclosed above.

Babcock Support Services Limited

Notes to the financial statements (continued)

16 Provisions for liabilities

	Contract provisions	Property and other provisions	Total
	£'000	£'000	£'000
At 1 April 2018	266	279	545
(Released) / accrued during the year	(249)	7	(242)
Utilised	(17)	-	(17)
At 31 March 2019	-	286	286

Contract provisions

The contract provision relates to the regional Defence Infrastructure Organisation Prime contracts and the potential exit costs that could arise on exit. The Company is liable for these exit costs up to 12 years after exit. The contract provision has been reviewed on annual basis and adjusted in line with discussions with the Defence Infrastructure Organisation. On completion of latency work in the current year, the remainder of this provision was released.

Property and other provisions

The property and other provisions relate to the closure of the East Midland office. During the current year, the closure was delayed into the next financial year and an additional accrual was made as a result of a revised dilapidations assessment. These provisions are expected to be utilised within the next financial year.

17 Deferred taxation

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

	Accelerated capital allowances	Restated retirement benefit obligations	Total
	£'000	£'000	£'000
Deferred tax (assets)/liabilities			
At 1 April 2018	(713)	(5,397)	(6,110)
Charged/(credited) to the income statement	78	(467)	(389)
(Credited) to other comprehensive income	-	(818)	(818)
At 31 March 2019	(635)	(6,682)	(7,317)

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Babcock Support Services Limited

Notes to the financial statements (continued)

18 Called up share capital

	Ordinary shares of £1 each £'000
Allotted, called up and fully paid	
110,045 ordinary shares of £1 each (2018: 110,045)	110
At 31 March 2019 & 31 March 2018	<u>110</u>

19 Guarantees and financial commitments

a) Contingent liabilities

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

b) Operating lease commitments

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

	2019 Land & buildings £'000	2019 Other £'000	2018 Land & buildings £'000	2018 Other £'000
Falling due:				
- before one year	500	79	800	101
- between one - five years	-	104	67	119
	<u>500</u>	<u>183</u>	<u>867</u>	<u>220</u>

Babcock Support Services Limited**Notes to the financial statements (continued)****20 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.

Transactions entered into with parties who are not wholly owned subsidiaries of Babcock International Group PLC and trading balances outstanding at 31 March 2019 are as follows:

	Sales to related party £'000	Purchases from related party £'000	Dividends received £'000	Amounts owed by related party £'000
Related party				
Babcock DynCorp Limited				
2019	-	-	509	-
2018	-	-	3,359	-
Fixed Wing Training Limited				
2019	3,852	-	-	380
2018	7,871	-	-	37
Babcock Integration LLP				
2019	-	-	-	-
2018	-	-	5,122	-

All dealings with related parties are conducted on an arm's length basis.

Notes to the financial statements (continued)

21 Pension commitments

The Company financial statements for pension costs in accordance with IAS 19R.

The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees. The pension charge for the year includes contributions payable by the Company to these funds amounting to £638,000 (2018: £827,000). As at 31 March 2019, no contributions were payable to the funds (2018: £nil).

The Company is also a contributing employer to two defined benefit schemes, the Babcock International Group Pension Scheme (BIG) and the Rosyth Royal Dockyard Limited pension scheme (Rosyth). The Company is severally liable, along with the other participating employers for the assets and liabilities of the schemes. The allocation of the assets and liabilities of the schemes and which have been recognised in these financial statements are detailed in this note.

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

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The schemes are funded by payments to legally separate trustee-administered funds. The trustees of the schemes are required by law to act in the best interests of the schemes' 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 schemes have an independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

BIG Pension Scheme

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

Babcock Support Services Limited**Notes to the financial statements (continued)****21 Pension commitments (continued)**

	2019 %	2018 %
Major assumptions		
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 (2018: £22.9m) is £8.5m (2018: £8.5m) of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

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

The changes to the Babcock International Group PLC balance sheet at 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 (2018: 15).

Babcock Support Services Limited

Notes to the financial statements (continued)

21 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 assets	2019 £'000	2018 £'000
Equities	444,412	310,191
Property	136,657	120,844
Absolute return and multi strategy funds	16,135	4,833
Bonds	326,937	485,697
Matching assets	544,834	569,413
Scheme Assets	1,468,975	1,490,978
Active position on longevity swaps	(60,111)	(50,150)
Total assets	1,408,864	1,440,828
Present market value of liabilities - funded	(1,359,140)	(1,380,628)
Gross pension surplus	49,724	60,200

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

The scheme does not invest directly in assets or shares of Babcock International Group PLC.

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

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £45,000 for service cost and incurred expenses (2018: £287,000) and net finance income of £3,000 (2018: cost £27,000).

Babcock Support Services Limited**Notes to the financial statements (continued)****21 Pension commitments (continued)**

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2019 £'000	2018 re- presented £'000
Actuarial (loss) / gain recognised in the SOCl	(4,077)	42,819
Experience gains / (loss)	3,181	(33,301)
Other (losses)	(8,666)	(439)
	<u>(9,562)</u>	<u>9,079</u>

The 2018 analysis has been reclassified to align with current year presentation. There has been no impact on the balance sheet as at 31 March 2018 or the income statement for the year ended 31 March 2018.

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £1,592,000 (2018: gain £79,000).

The equity investments and bonds are valued at bid price.

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

	2019 £'000	2018 £'000
Reconciliation of reimbursement rights		
At 1 April	(50,150)	(48,451)
Interest of reimbursement rights	(1,295)	(1,260)
Actuarial gains/(losses)	(8,666)	(439)
At 31 March	(60,111)	(50,150)

Babcock Support Services Limited

Notes to the financial statements (continued)

21 Pension commitments (continued)

	2019 £'000	2018 £'000
Reconciliation of present value of scheme liabilities		
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) / loss	(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

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 £88,000 (2018 restated: surplus of £1,384,000). A prior year restatement reduced the pension liability by £4,609,000, and deferred tax asset by £785,000 against retained earnings as of 1 April 2017 and as at 31 March 2018 due to the valuation already incorporating pension scheme members that had previously been excluded.

Rosyth Pension scheme

The IAS 19R valuation has been updated at 31 March 2019 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19R. The date of the last full actuarial valuation was 31 March 2015. The major assumptions used for the IAS 19R valuation were:

	2019 %	2018 %
Major assumptions		
Rate of increase in salaries	2.3	2.3
Rate of increase in pension payment	3.3	3.2
Discount rate	2.4	2.6
Inflation	2.1	2.0

Notes to the financial statements (continued)**21 Pension commitments (continued)**

The expected total employer contributions to be made by participating employers to the scheme in 2019/20 are £28.1m. The future service rate is 21.5%. 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 £28.1m (2018: £28.1m) is £17.5m (2018: 17.5m) of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2019 Years	2018 Years
Life expectancy from age 65 (male age 65)	19.7	20.2
Life expectancy from age 65 (male age 45)	20.7	21.3

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

	Defined benefit obligations 2019 £'000	Income statement 2020 £'000
Initial assumptions	1,009,502	10,918
Discount rate assumptions increased by 0.5%	(82,577)	(3,631)
Discount rate assumptions decreased by 0.5%	82,577	433
Inflation rate assumptions increased by 0.5%	71,977	2,071
Inflation rate assumptions decreased by 0.5%	(65,214)	(1,939)
Total life expectancy increased by half a year	21,906	624
Total life expectancy decreased by half a year	(21,906)	(624)
Salary increase assumptions increased by 0.5%	4,240	161
Salary increase assumptions decreased by 0.5%	(4,240)	(161)

The weighted average duration of cashflows (years) is 18.

Babcock Support Services Limited**Notes to the financial statements (continued)****21 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 assets	2019	2018
	£'000	£'000
Equities	269,450	203,625
Property	62,218	61,197
Absolute return and multi strategy funds	43,008	27,032
Bonds	157,683	186,862
Matching assets	357,179	448,448
Scheme Assets	889,538	927,164
Active position on longevity swaps	(57,107)	(66,347)
Total assets	832,431	860,817
Present market value of liabilities - funded	(1,009,503)	(1,019,307)
Gross pension deficit	(177,072)	(158,490)

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

The scheme does not invest directly in assets or shares of Babcock International Group PLC.

Babcock Support Services Limited

Notes to the financial statements (continued)

21 Pension commitments (continued)

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13, the valuation of which is equal to the amount of collateral posted by the schemes as at balance sheet date. This is a level 3 derivative and the key inputs to the valuation are the discount rate and mortality assumptions.

Analysis of amount charged to the income statement in Babcock International Group PLC	2019 £'000	2018 £'000
Current service cost	5,949	7,112
Incurred expenses	549	596
Past Service Cost	2,016	-
Total included within operating profit	8,514	7,708
Net interest cost	3,832	5,225
Total charged to the income statement	12,346	12,933

The amounts charged to the income statement included in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £1,894,000 for service costs and incurred expenses (2018: £1,611,000) and net interest cost of £851,000 (2018: cost £1,092,000).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCl")	2019 £'000	2018 re- presented £'000
Actuarial (loss) / gain recognised in the SOCl	(11,546)	25,656
Experience (loss) / gains	(23,950)	9,103
Other gains / (loss)	10,951	(4,731)
	(24,545)	30,028

The 2018 analysis has been reclassified to align with current year presentation. There has been no impact on the balance sheet as at 31 March 2018 or the income statement for the year ended 31 March 2018.

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £3,511,000 (2018: gain £12,139,000).

The equity investments and bonds are valued at bid price.

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Notes to the financial statements (continued)

21 Pension commitments (continued)

	2019 £'000	2018 £'000
Reconciliation of present value of scheme assets in Babcock International Group PLC		
At 1 April	927,164	912,854
Interest cost	23,665	23,603
Employee contributions	17	13
Employer contributions	18,309	31,427
Benefits paid	(112,894)	(49,378)
Actuarial gain	33,277	8,645
At 31 March	889,538	927,164

	2019 £'000	2018 £'000
Reconciliation of reimbursement rights		
At 1 April	(66,347)	(60,055)
Interest of reimbursement rights	(1,711)	(1,561)
Actuarial gains/(losses)	10,951	(4,731)
At 31 March	(57,107)	(66,347)

	2019 £'000	2018 £'000
Reconciliation of present value of scheme liabilities		
At 1 April	1,019,307	1,059,811
Service cost	5,949	7,112
Incurred expenses	549	596
Interest on liabilities	25,786	27,267
Employee contributions	17	13
Actuarial loss/(gain) – demographics	290	(6,787)
Actuarial loss/(gain) – financial	44,533	(10,224)
Experience (gain) / losses	23,950	(9,103)
Benefits paid	(112,894)	(49,378)
Past service cost	2,016	-
At 31 March	1,009,503	1,019,307

The deficit 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 £39,390,000 (2018: deficit of £33,134,000).

Babcock Support Services Limited

22 Ultimate parent undertaking

The immediate parent undertaking is Babcock Defence & Security Holdings LLP, a limited liability partnership registered in England and Wales.

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

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

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London
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