Liquid Gas Equipment Limited

Annual report

For the year ended 31 March 2019

Company registration number:

SC434537

Directors and advisors

Current directors
N E C Campbell
A R Duckett
J Hall
I Urquhart

Company secretary
Babcock Corporate Secretaries Limited

Registered office
Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Bankers
The Royal Bank of Scotland PLC
Glasgow Branch
10 Gordon Street
Glasgow
G1 3PL

Strategic report for the year ended 31 March 2019

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

Principal activities

The principal activities of the Company are the design and installation of liquid gas storage and handling systems for both marine and onshore markets, principally within the oil and gas industry.

Review of the business

The company's results are from its core market being long term contracts supplying cargo handling systems for Liquefied Petroleum Gas (LPG) ships and more recently Liquefied Natural Gas (LNG). The company's clients are mainly shipyards manufacturing various sizes of gas ships out of South East Asia.

In the year ended 31 March 2019, the company experienced a stable year with a high volume of contract completions taking place within its core LPG market for both existing and new clients, generating 53% of the Company's in year revenues. The remaining revenue stemmed primarily from the strategic focus of the business on the new improved MR reliquefaction plant for today's modern LNG Carrier, which offers increased performance with reduced power consumption and a smaller footprint in a range of sizes to cover specific owner requirements.

The company strives to maintain its core market position, building strong relationships with its major customers and further growing into related strategic markets and new technologies resulting in a strong orderbook at the end of the year in both the LPG and LNG markets, securing revenues into 2021/22.

	2019	2018
	£000	£000
Revenue	**61,835**	34,371
Loss for the financial year	**(2,547)**	(352)
Net Assets	**4,170**	9,239

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 contractual performance, the political and regulatory environment, and exposure to foreign exchange. The directors manage this risk by meeting on a regular basis to discuss these risks.

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

Future developments

The directors are confident about the future trading prospects of the Company due to its current order book and future market opportunities.

Key performance indicators

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

On behalf of the board

Jon Hall

Director

20 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.

Dividends

No dividends have been provided for the year ended 31 March 2019 (2018: £11,000,000). No further dividends had been declared nor recommended to be paid up to the date of signing of the financial statements.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued support of the immediate parent company Babcock International Group PLC.

Future developments

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

Financial risk management

The company's principal financial instruments comprise cash at bank and bank overdrafts as well as financial derivatives. The main purpose of these financial instruments is to manage the company's funding and liquidity requirements. The company has other financial instruments such as trade debtors and trade creditors which arise directly from its operations. The principal financial risks to which the company is exposed are those relating to foreign currency, commodity price and credit risk. 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.

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

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

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

Liquidity risk

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

Directors

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

N E C Campbell
A R Duckett
J Hall
I Urquhart
M Jones (resigned 6th September 2019)
I Lindsay (resigned 31st August 2018)

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. The Company has been in possession of ISO 14001:2004 accreditation from Lloyd's Register since 6 June 2003, with current revision ISO 14001:2015 certified since 1 July 2018.

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

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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. They 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.

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.

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

Jon Hall

Director

20 December 2019

Independent auditors' report to the members of Liquid Gas Equipment Limited

Report on the audit of the financial statements

Opinion

In our opinion, Liquid Gas Equipment 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 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 (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Independent auditors' report to the members of Liquid Gas Equipment Limited

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page [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 Liquid Gas Equipment Limited

Report on the audit of the financial statements *(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.

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
20 December 2019

Income statement
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	3	**61,835**	34,371
Cost of sales		**(55,567)**	(28,400)
Gross profit		**6,268**	5,971
Administrative Expenses		**(7,360)**	(4,970)
Operating (loss)/profit	6	**(1,092)**	1,001
(Loss)/Profit before interest and taxation		**(1,092)**	1,001
Income and Finance costs	5	**(1,473)**	(1,355)
Loss before taxation		**(2,565)**	(354)
Tax on loss	9	**18**	2
Loss for the financial year		**(2,547)**	(352)

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2019

	2019 £000	2018 £000
Loss for the financial year	**(2,547)**	(352)
Other comprehensive (expenditure)/income		
Items that may be subsequently reclassified to income statement:		
- Foreign exchange hedges	**(2,522)**	1,695
Total Comprehensive (expenditures)/Income for the financial year	**(5,069)**	1,343

Liquid Gas Equipment Limited

Statement of Financial Position

as at 31 March 2019

	Note	2019 £000	Restated 2018 £000
Non-current assets			
Intangible assets	10	**36,030**	34,710
Derivative Financial Instruments	12,15	**73**	203
		36,103	34,913
Current assets			
Inventories	11	**12**	0
Trade and other receivables	12	**41,303**	32,510
Derivative Financial Instruments	12,15	**530**	1,019
Cash and cash equivalents		**21,576**	8,035
		63,421	41,564
Current Liabilities			
Trade and other payables – amounts falling due within one year	13	**(91,175)**	(65,635)
Derivative Financial Instruments	13,15	**(2,436)**	(567)
Provisions for liabilities	14	**(918)**	(787)
Net current liabilities		**(31,108)**	(25,425)
Total assets less current liabilities		**4,995**	9,488
Derivative Financial Instruments – amounts falling due after more than one year	13,15	**(825)**	(249)
Net assets		**4170**	9,239
Equity			
Called up share capital	17	**0**	0
Other reserves		**(2,133)**	389
Retained earnings		**6,303**	8,850
Total shareholders' funds		**4,170**	9,239

The financial statements and notes, which form an integral part of these financial statements, on pages 14 to 29 were approved by the board of directors and signed on its behalf by:

Jon Hall
Director
20 December 2019
Registered number SC434537

Liquid Gas Equipment Limited

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

	Called up share capital	Share premium	Hedging Reserve	Retained earnings	Total shareholders' funds/(deficit)
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2017	0	0	(1,702)	20,598	18,896
Loss for the financial year	0	0	0	(352)	(352)
Other comprehensive income/(expenditure)	0	0	2,091	(396)	1,695
Dividends paid	0	0	0	(11,000)	(11,000)
Balance at 31 March 2018	**0**	**0**	**389**	**8,850**	**9,239**
Loss for the financial year	0	0	0	(2,547)	(2,547)
Other comprehensive income/(expenditure)	0	0	(2,522)	0	(2,522)
Dividends paid	0	0	0	0	0
Balance at 31 March 2019	**0**	**0**	**(2,133)**	**6,303**	**4,170**

Notes to the financial statements

1 General information

Liquid Gas Equipment Limited is a private company, limited by shares, which is incorporated and domiciled in the UK. The address of the registered Office is Rosyth Business Park, Rosyth, Dunfermline, KY11 2YD.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006, as applicable to companies using FRS 101. The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2017) in these financial statements:

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

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

The Company is a wholly owned subsidiary of its ultimate parent, Babcock International Group PLC, and part of the Marine Sector. It is 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:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;

Summary of significant accounting policies *(continued)*

- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

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

f) IAS 7, 'Statement of cash flows'

g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation

i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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

Adoption of new and revised standards

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

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

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

Revenue

Revenue 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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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.

(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.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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.

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

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

Intangible assets

a) *Goodwill*

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

Annual impairment reviews are performed as outlined in note 10. In this case, there is no goodwill impairment deemed to be required.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

b) *Research and development*

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

Inventory and work in progress

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

Trade receivables

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

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

2 Summary of significant accounting policies *(continued)*

Pension costs

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.

Operating leases

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

Provisions for liabilities

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs
Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

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

Derivative financial instruments

The company enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. All forward exchange contracts that have been designated in a hedge accounting relationship undergo effectiveness testing at the balance sheet date to ensure that the hedge remains highly effective. Forward exchange

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

contracts are valued at the period end exchange rate and shown in the balance sheet as financial assets or liabilities. Gains or losses on cash flow hedges that are regarded as highly effective are recognised in the hedging reserve. Gains or losses on ineffective hedges are recognised in the profit and loss account.

Critical accounting estimates and judgements

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

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

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.

3 Revenue

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

	2019	2018
	£000	**£000**
	Supply of Cargo Handling Systems	Supply of Cargo Handling Systems
By area of activity:		
Sale of Goods – transferred at a point in time	**605**	467
Sale of Goods – transferred over time	**61,230**	33,904
	61,835	34,371

All the revenue originated in the United Kingdom.

4 Contract revenue

	2019 £000	2018 £000
From ongoing contracts:		
Contract costs incurred	**425,146**	369,579
Recognised profits less recognised losses	**71,857**	65,588
	497,003	435,167
Progress billings	**500,748**	436,167
Due from customers (Note 12)	**8,559**	492
Due to customers (Note 13)	**(12,304)**	(6,551)

5 Finance income and costs

	2019 £000	2018 £000
Finance income:		
Bank interest	**16**	0
	16	0
Finance costs:		
Loan interest payable to group undertakings	**(1,489)**	(1,355)
	(1,489)	(1,355)

6 Operating (loss)/profit

Operating profit is stated after charging:

	2019 £000	2018 £000
Amortisation of intangible assets	**124**	0
Operating lease charges	**0**	31
Research and development recognised as an expense	**395**	1,420
Foreign exchange losses	**47**	67
Audit fees payable to the Company's auditors	**23**	22

No other services have been provided by the auditors to the Company in the year (2018:Nil).

7 Staff costs

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

	2019 Number	2018 Number
By activity:		
Operations	**65**	76
Management and administration	**23**	28
	88	104

Their aggregate remuneration comprised:	2019 £000	2018 £000
Wages and salaries	**3,999**	4,238
Social security costs	**367**	531
Other pension costs	**237**	236
	4,603	5,005

8 Directors' remuneration

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

	2019	2018
The remuneration of the directors which was paid by the Company was as follows:	**£000**	£000
Emoluments (including benefits in-kind)	**195**	358
Money purchase pension schemes	**49**	45
	244	403

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

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

	2019	2018
	£000	£000
Emoluments (excluding pension contributions)	**101**	182
Money purchase pension scheme	**14**	10

9 Tax on loss

Tax income included in income statement	2019	2018
	£000	£000
Current tax:		
UK Corporation tax on losses for the year	**0**	0
Current tax charge for the year	**0**	0
Deferred tax (note 16):		
Origination and reversal of timing differences	**2**	2
Prior year adjustments	**16**	0
	18	2
Tax on loss	**18**	2

Notes to the financial statements *(continued)*

9 Tax on loss *(continued)*

Tax expense for the year is higher (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 before taxation	**(2,565)**	(354)
Loss multiplied by standard UK corporation tax rate of 19% (2018: 19%)	**(487)**	(67)
Effects of:		
Adjustment in respect of deferred tax for prior years	**16**	0
Expenses not deductible for tax purposes	**1**	0
Group relief surrendered for nil consideration	**489**	69
Total tax credit for the year	**18**	2

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.

10 Intangible assets

	Development Costs £000	Goodwill £000	Total £000
Cost			
At 1 April 2018	679	34,031	34,710
Additions	1,444		1,444
Accumulated amortisation			
At 1 April 2018 and 31 March 2019	(124)	0	(124)
Net book value			
At 31 March 2019	**1,999**	**34,031**	**36,030**

Notes to the financial statements *(continued)*

10 Intangible assets *(continued)*

Goodwill arose on acquisition by Babcock International Group Plc in December 2012. The directors have evaluated the carrying value of goodwill as at 31 March 2019. Given that the company is carrying order book at 31 March 2019 securing future revenues, along with the outlook into new strategic markets, the directors have concluded that no impairment adjustment is required.

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

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £1,702k (2018: £1,702k) against operating profit and a reduction of £23,396 (2018: £25,098) in the carrying value of goodwill in the balance sheet.

Development cost relates to 2 new technologies – LNG GSV FGSVO™ and ecoSMRT® Reliquefaction. As the required criterion for application of IAS 38 has been met, the development cost of the first of its kind for each new technology piece has been capitalised. Based on changing market environments and legislative requirements, a 5 year amortisation period is deemed suitable to allow conclusion of the development and fruition of future pipeline opportunities.

The balance in 2018 has been restated by £679k due to development costs not being capitalised in line with policy even though the costs met the capitalisation criteria. Note 10 and the Statement of Financial Position have been restated.

11 Inventories	**2019**	2018
	£000	£000
Raw materials	**12**	0

12 Trade and other receivables	**2019**	2018
	£000	£000
Amounts falling due within one year:		
Trade receivables	**8,403**	7,014
Amounts due from customers for contract work (note 4)	**8,559**	492
Amounts owed by group undertakings	**15,194**	19,931
Deferred tax asset (note 16)	**9**	27
Other receivables	**1119**	277
Prepayments and accrued income	**8,019**	4,769
	41,303	32,510
Derivative financial instruments (note 15)	**530**	1,019
	41,833	33,529

Notes to the financial statements *(continued)*

12 Trade and other receivables *(continued)*

Amounts due after more than one year:		
Derivative financial instruments (note 15)	**73**	203
	41,713	33,732

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

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

- All 3 loans totalling £15,194,000 (2018: all 3 loans totalling £19,900,000) are repayable on demand, with no interest charge.

	Amounts due for contract work	**Accrued income**	**Total**
	£000	**£000**	**£000**
At 31 March 2018	**492**	**4,769**	**5,261**
Reclassification – IFRS 15 Transition	0	0	**0**
31 March 2018 - restated	492	4,769	**5,261**
Transfers from contract assets recognised at the beginning of the year to receivables	(492)	(4,769)	**(5,261)**
Increase due to work done not recognised in the income statement	8,559	8,595	**17,154**
At 31 March 2019	**8,559**	**8,595**	**17,154**

13 Trade and other payables

	2019	2018
	£000	£000
Amounts falling due within one year:		
Trade creditors	**22,418**	17,670
Amounts owed to parent and group undertakings	**38,954**	34,552
Taxation and social security	**151**	99
UK corporation tax payable	**5,358**	5,418
Other payables	**16**	0
Payments received on account (note 4)	**12,304**	6,551
Accruals and deferred income	**11,974**	1,345
	91,175	65,635
Derivative financial instruments (note 15)	**2,436**	567
Provisions for liabilities	**918**	787
	94,529	66,989

Notes to the financial statements *(continued)*

13 Trade and other payables *(continued)*

Amounts due after more than one year:

Derivative financial instruments (note 15)	**825**	249
	825	249

	Contract cost accrual £000	Advance payments £000	Total £000
At 31 March 2018	**(1,345)**	**(6,551)**	**(7,217)**
Revenue recognised that was included in contract liabilities at the beginning of the year	1,345	6,551	**7,217**
Increase due to cash received, excluding amounts recognised as revenue	(12,549)	(12,304)	**(24,853)**
At 31 March 2019	**(12,549)**	**(12,304)**	**(24,853)**

Amounts owed to parent and group undertakings are unsecured and repayable on demand. The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 20).

14 Provision for liabilities

	Warranty provision £000	Total £000
At 1 April 2018	**787**	**787**
Charged to the income statement	894	894
Released to the income statement	(176)	(176)
Cash Paid External	(587)	(587)
At 31 March 2019	**918**	**918**
Current (within 12 months)	918	918
Total	**918**	**918**

Warranty provisions include provisions for expected warranty and contract damages claims on products sold and services provided. It is expected that all costs related to such claims will have been incurred within 5 years of the balance sheet date.

Notes to the financial statements *(continued)*

15 Other financial assets and liabilities

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

Included in Derivative financial instruments at fair value:

	31 March 2019		31 March 2018	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
FX Debtor/(Creditor) Revaluation	**0**	0	7	(29)
Forward FX contracts – cash flow hedges	**603**	(3,261)	809	(289)
Total	**603**	(3,261)	816	(318)
Less non-current portion				
Forward FX contracts – cash flow hedges	**73**	(825)	203	(249)
Current portion	**530**	(2,436)	1,019	(567)

16 Deferred taxation

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

Deferred tax assets	**Accelerated capital allowances**	**Other**	**Total**
	£000	**£000**	**£000**
At 1 April 2018:	**10**	**17**	**27**
Credited / (charged) to the income statement	(1)	(17)	(18)
At 31 March 2019:	**9**	**0**	**9**

17 Called up share capital

	2019	2018
	£	**£**
Allotted and fully paid		
2 ordinary shares of £1 each (2018: 2)	**2**	2

18 Dividends

No dividends were paid in the year, (2018: £11,000,000). No further dividends were declared up to the date of signing of the financial statements.

Notes to the financial statements *(continued)*

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 no future rental payable under non-cancellable operating leases, (2018: £nil).

c) Capital Commitments

At 31 March 2019 the Company had no capital commitments, (2018: £nil).

20 Related party disclosures

All related undertakings for the Company are as listed below:

Company Name & Address	Country	Interest	Direct %	Ultimate%
Babcock IP Management (Number One) Limited 33, Wigmore Street, London, England, W1U 1QX, United Kingdom	United Kingdom	£0.01 Ordinary share	0.01%	0.01%

21 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to a defined contribution scheme (the "Defined contribution Scheme 1") in respect of a number of its employees.

22 Ultimate parent undertaking

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

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

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX