

Classification: UNCLASSIFIED

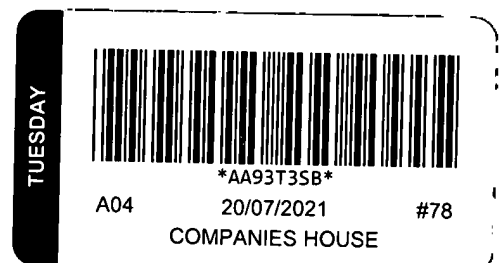
**Babcock Mission Critical Services Leasing Limited**

**Annual Report**

**For the year ended 31 March 2020**

**Company registration number:**

**04635275**



Classification: UNCLASSIFIED

**Babcock Mission Critical Services Leasing Limited**

Directors and advisors	2
Strategic report	3
Directors' report	6
Independent auditors' report to the members of Babcock Mission Critical Services Leasing Limited	9
Income statement	12
Statement of comprehensive income	12
Balance sheet	13
Statement of changes in equity	14
Notes to the financial statements	15-31

Classification: UNCLASSIFIED

**Babcock Mission Critical Services Leasing Limited**

**Directors and advisors**

**Current directors**

S Chartres  
K Garvey  
L Inigo Moreno-Ventas  
E Sanchez Vicente

**Company secretary**

Babcock Corporate Secretaries Limited

**Registered office**

33 Wigmore Street  
London  
W1U 1QX

**Independent auditors**

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

**Babcock Mission Critical Services Offshore Limited**

**Strategic report for the year ended 31 March 2020**

The directors present their Strategic report on the Company for the year ended 31 March 2020.

**Principal activities**

The principal activities of the Company is the provision of aircraft to suitable operators on long-term or short-term operating leases. The Company also generates income from aircraft related maintenance.

**Review of the business**

	<b>2020</b>	<b>2019</b>
	<b>£000</b>	<b>£000</b>
Revenue	<b>17,327</b>	<b>7,454</b>
Loss for the financial year	<b>(23,217)</b>	<b>(10,024)</b>

During the year to March 2020, the business has continued to be impacted by challenging industry conditions despite a stabilised oil price. This has prompted a further review of the owned asset values, resulting in an impairment charge of £11.8m to reduce the value to market value (2019: £10.3m). There has been a continuing need for companies operating in the UK oil and gas market to lower operating costs whilst maintaining service delivery and ensuring the highest level of safety within the industry for its customers. The Company continues to investigate alternative markets for the future use of the remaining aircraft.

The Company continues to benefit from being part of the wider Babcock group with support to enhance fleet capability, leverage of both fleet finance and procurement activities and the overall financial strength of the group.

The Company's revenues have increased by £9,873,000 primarily due to new contracts generating additional lease income for the fleet.

The 2019 cost of sales figure consisted of £15.8m lease costs for the grounded aircraft, unwinding of the onerous provision £11.1m credit in relation to these lease costs and £6m credit from a supplier relating to engines and airframes.

Administration costs of £3,934,000 consists largely of the foreign exchange impact on the company's lease commitments in Euros and US Dollars.

The transition to IFRS 16 on 1 April 2019 has had an impact on reported numbers in 2020. In the Income Statement an operating lease charge has been replaced by depreciation of right of use assets of £18,618,000 and interest charge on lease liabilities of £3,813,000. At March 2020 the Balance Sheet shows lease liabilities and right of use assets of £94,508,000 and £79,114,000 respectively.

During 2019 both the onerous lease provision £7.2m (2018: £13.9m) and the impairment charge £10.3m (2018: £18.7m) on the Super Puma fleet were disclosed as exceptional. In 2020, as set out above, a further impairment of the Super Puma fleet of £11.8m was made.

The effects of the above transactions have resulted in the company delivering a loss of £(23.2)m compared to a loss in 2019 of £(10.0)m.

## **Babcock Mission Critical Services Leasing Limited**

### **Strategic report for the year ended 31 March 2020** *(continued)*

The Company has an investment in Babcock Malta (Number Two) Limited. No dividend was received from the investment during the year (2019: £nil).

The financial position of the Company is shown in the Balance Sheet on page 12. The Company remains in a strong financial position with net assets of £98.5m (2019: £121.6m).

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 76 to 77 of the Group's report, which does not form part of this report.

#### **Principal risks and uncertainties**

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

The key risks and uncertainties affecting the Company are considered to be related to the nature of the services provided, which is often compounded through low-altitude flying in adverse climatic or operational conditions or terrains. Other factors include the impact of volatility in the oil and gas market from which the Company derives a large proportion of its revenues. The directors manage this risk by meeting on a regular basis to discuss these risks and mitigation procedures.

The impacts of Brexit and COVID-19 are considered a cause of uncertainty and risk. Together they can cause volatility in foreign exchange rates, reduced consumption and potential operational and administrative changes. With recent news of COVID-19 vaccines being successfully developed and approved globally and a Brexit trade deal being agreed between the UK and the EU, it is believed that the uncertainties and risks around Brexit and COVID-19 will diminish. The risks associated with oil and gas market volatility, exacerbated by the COVID-19 pandemic, are deemed more significant.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19 is provided on pages 80 to 92 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 fleet availability, order book and market opportunities.

#### **S172(1) statement and stakeholder engagement.**

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group annual report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees. During the year, the

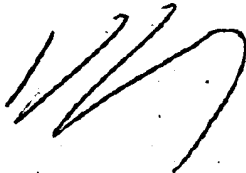
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**Babcock Mission Critical Services Leasing Limited**

**Strategic report for the year ended 31 March 2020** *(continued)*

Directors additionally considered the renewal of existing customer contracts and work on future contract renewals and new business activity.

On behalf of the Board

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Kevin Garvey.

*Kevin Garvey*

**Director**

20 July 2021

## **Babcock Mission Critical Services Leasing Limited**

Directors' report for the year ended 31 March 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

### **Dividends**

No final dividend for the year ended 31 March 2020 has been provided by the directors (2019: £nil).

### **Review of the business and future developments**

Information on the review of the Company's business during the year, together with information on the Company's risks and uncertainties and future developments, 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, foreign exchange risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. 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 65 to 67 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.

#### *Interest rate cash flow risk*

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

#### *Foreign exchange risk*

The functional and presentational currency of the Company is Sterling. The company has exposure to number of foreign currencies, the most significant being the USD. To mitigate this risk,

## **Babcock Mission Critical Services Leasing Limited**

### **Directors' report for the year ended 31 March 2020 (continued)**

the Company's policy is to hedge all material transactional exposures, using financial instruments where appropriate.

#### **Directors**

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

S Chartres (appointed 10 July 2019)  
K Hayzen-Smith (appointed 10 July 2019, resigned 13 January 2020)  
K Garvey (appointed 13 January 2020)  
L Inigo Moreno-Ventas (appointed 10 July 2019)  
D Plester (resigned on 1 April 2019)  
A H Pentecost (resigned 10 July 2019)  
E Sanchez Vicente

#### **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.

#### **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.

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

#### **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 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 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



**Babcock Mission Critical Services Leasing Limited**

**Directors' report for the year ended 31 March 2020 (continued)**

- 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.

**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 appointed as auditors at the Annual General Meeting.

On Behalf of the Board



Kevin Garvey

Director

20 July 2021

**Babcock Mission Critical Services Leasing Limited**

**Independent auditors' report to the members of Babcock Mission Critical Services Leasing Limited**

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

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**Opinion**

In our opinion, Babcock Mission Critical Services Leasing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 March 2020; 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.

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**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.

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**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- 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.

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.

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**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.

## **Babcock Mission Critical Services Leasing Limited**

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 2020 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.

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## **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, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### *Auditors' responsibilities for the audit of the financial statements*

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

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

## **Babcock Mission Critical Services Leasing Limited**

### *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.

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## **Other required reporting**

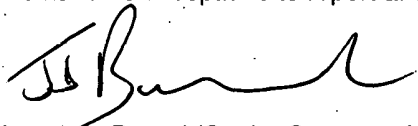
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### **Companies Act 2006 exception reporting**

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.



Jonathan Bound (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Bristol

20 July 2021

**Babcock Mission Critical Services Leasing Limited****Income statement***for the year ended 31 March 2020*

	Note	2020 £000	2019 £000
<b>Revenue</b>	4	<b>17,327</b>	7,454
Cost of sales		<b>(21,232)</b>	1,300
<b>Gross profit/(loss)</b>		<b>(3,905)</b>	8,754
Administration expenses		<b>(3,934)</b>	454
Exceptional administrative expenses	5	<b>(11,779)</b>	(17,500)
<b>Operating (loss)</b>		<b>(19,618)</b>	(8,292)
Finance income	6	<b>473</b>	9
Finance costs	6	<b>(5,609)</b>	(1,303)
<b>Loss before tax</b>	7	<b>(24,754)</b>	(9,586)
Tax on loss	8	<b>1,537</b>	(438)
<b>Loss for the financial year</b>		<b>(23,217)</b>	(10,024)

All of the above results derive from continuing operations.

**Statement of comprehensive Income***for the year ended 31 March 2020*

	2020 £000	2019 £000
<b>(Loss) for the financial year</b>	<b>(23,217)</b>	(10,024)
<b>Other comprehensive (expense) / (income)</b>		
Items that may be reclassified to profit or loss		
Fair value adjustment of foreign exchange hedges	<b>86</b>	(91)
<b>Total comprehensive (expense) for the financial year</b>	<b>(23,131)</b>	(10,115)

**Babcock Mission Critical Services Leasing Limited****Balance sheet***as at 31 March 2020*

	Note	2020 £000	2019 £000
<b>Non-current assets</b>			
Tangible fixed assets	9	22,031	33,936
Right-of-use-assets	10	79,114	-
		<b>101,145</b>	<b>33,936</b>
<b>Current assets</b>			
Trade and other receivables	11	146,195	140,965
Cash and bank		784	-
		<b>146,979</b>	<b>140,965</b>
<b>Current Liabilities</b>			
Trade and other payables – amounts falling due within one year	12	(7,250)	(3,241)
Corporation tax payable		(1,998)	(1,998)
Lease liabilities	13	(15,687)	-
Bank and other borrowings		-	(2,356)
<b>Net current assets</b>		<b>122,044</b>	<b>133,370</b>
<b>Total assets less current liabilities</b>		<b>223,189</b>	<b>167,306</b>
Trade and other payables – amounts falling due after more than one year	12	(44,367)	(32,716)
Provisions for liabilities	14	-	(9,921)
Lease liabilities	13	(78,821)	-
Deferred tax liability	15	(1,515)	(3,052)
<b>Net assets</b>		<b>98,486</b>	<b>121,617</b>
<b>Equity</b>			
Called up share capital	16	50	50
Other reserve		(11)	(97)
Shared premium account		105,663	105,663
(Accumulated losses)/Retained earnings		(7,216)	16,001
<b>Total shareholders' funds</b>		<b>98,486</b>	<b>121,617</b>

The notes on pages 15 to 31 are an integral part of these financial statements.

The financial statements on pages 12 to 31 were approved by the board of directors and signed on its behalf by:



Kevin Garvey

Director

20 July 2021

Registered number 04635275

**Babcock Mission Critical Services Leasing Limited****Statement of changes in equity**  
*for the year ended 31 March 2020*

	Called up share capital £000	Share premium account £000	Other Reserve £000	(Accumulated losses)/ Retained earnings £000	Total shareholders ' funds £000
<b>Balance at 1 April 2018</b>	50	105,663	(6)	26,025	131,732
Loss for the financial year	-	-	-	(10,024)	(10,024)
Other comprehensive (expense)	-	-	(91)	-	(91)
Total comprehensive (expense) for the financial year	-	-	(91)	(10,024)	(10,115)
<b>Balance at 31 March 2019</b>	<b>50</b>	<b>105,663</b>	<b>(97)</b>	<b>16,001</b>	<b>121,617</b>
<b>Effect of adoption of IFRS16 (net of tax) (note 21)</b>	-	-	-	-	-
<b>Balance at 1 April 2019 after adoption of IFRS16</b>	<b>50</b>	<b>105,663</b>	<b>(97)</b>	<b>16,001</b>	<b>121,617</b>
Loss for the financial year	-	-	-	(23,217)	(23,217)
Other comprehensive income	-	-	86	-	86
Total comprehensive (expense) for the financial year	-	-	86	(23,217)	(23,131)
<b>Balance at 31 March 2020</b>	<b>50</b>	<b>105,663</b>	<b>(11)</b>	<b>(7,216)</b>	<b>98,486</b>

## **Babcock Mission Critical Services Leasing Limited**

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

#### **1 General information**

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

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

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented with the exception of IFRS 16 as described below.

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

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

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

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Mission Critical Design and Completions Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

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

- a) IFRS 7, 'Financial instruments: Disclosures'
- b) 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)
- 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 (reconciliations between the carrying amount at the beginning and end of the period)
- d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
- f) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- g) IAS 7, 'Statement of cash flows'



## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements (continued)**

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

- h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- i) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- j) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

#### **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.

#### **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 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 16, 'Leases' has been adopted in the year (effective 1 January 2019) and replaces IAS 17 as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Under the new standard, the Company has now recognised almost all leases, where the Company is a lessee, on the balance sheet as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

The Company has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for its leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. Figures have not been restated for the year ended 31 March 2019.

The following practical expedients have been adopted on transition:

- Single discount rates have been applied to portfolios of leases with similar characteristics
- IFRS 16 has only been applied to contracts that were previously classified as leases
- For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition
- Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
- The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements (continued)**

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

Right-of-use asset are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, "Impairment of Assets". Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound

#### **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.

##### **(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.

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements** *(continued)*

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

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.

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).

##### **(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.

#### **Finance costs**

All finance costs are recognised in the income statement in the period in which they are incurred.

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements (continued)**

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

##### **Finance income**

Finance income comprises interest income on funds invested and is recognised in the income statements. Interest income is recognised as it accrues in the income statement, using the effective interest rate method.

##### **Property, plant and equipment**

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

Aircraft and equipment            3.3% to 10%

Advance payment for aircraft are included in assets under construction. Assets in the course of construction are not depreciated until they are brought into use.

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.

##### **Maintenance deposits**

Where maintenance is provided under 'power by the hour' contracts and elements are refundable, these costs are recorded as other receivables.

##### **Investments**

Investments in subsidiary undertakings are stated at cost less provision for impairment in value.

The directors perform an annual impairment assessment and where potential exposure is identified a full impairment review is undertaken. To assess the carrying value of the investments the directors have considered the underlying net assets and future earnings where appropriate. Any impairment is taken to the income statement.

##### **Trade receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

The Company applies the IFRS9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables and contract assets.

##### **Trade payables**

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

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements** *(continued)*

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

##### **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.

##### **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

##### **Lessee Accounting**

For lessees there is no longer a distinction between finance or operating leases as all leases are now recognised on the balance sheet. When a lease commences, a lease liability is recognised that is equal to the present value of the minimum lease payments. A right-of-use asset is also recognised and is equal in value to the lease liability. This represents the right to use the leased asset for the full lease term.

Short-term leases and low-value leases are exempt from recognition on the balance sheet, and the payments are instead recognised on a straight-line basis in the income statement in the same way as they would have been under IAS 17. A lease is considered short-term if the total lease length is less than 12 months, and low-value if the underlying asset would cost less than £5,000 to buy new.

Right-of-use assets are depreciated over the shorter of the assets useful life or expected term of the lease. Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term. When lease payments are made, the lease liabilities reduce. Therefore both right-of-use assets and lease liabilities have nil value at the end of the lease.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements** *(continued)*

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

recognised in the income statement. Where a lease is terminated early, any termination fees or, gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

In previous years, under IAS 17, 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 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

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 contract balances 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 contract assessments are updated regularly.

#### **Exceptional items**

Items which are both non-recurring and material in either size or nature are presented as exceptional items within the relevant income statement line. The principal items which are included as exceptional are costs that are not considered to be part of the normal operating costs of the company. These costs included impairment and onerous lease charges. See note 5 for further details.

#### **3 Critical accounting estimates and judgements**

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below.

##### **a) Impairment assessment of investments**

See note 2 'Investments' for information on how the impairment of investments is assessed.

##### **b) Impairment assessment of property, plant and equipment and right of use of assets**

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****2 Summary of significant accounting policies (continued)**

The carrying value of property, plant and equipment and right of use assets is sensitive to changes in the estimated useful economic lives and residual values of the assets together with their expected cash inflows from continued use. The useful economic lives and residual values are re-assessed annually.

**3 Critical accounting estimates and judgements (continued)**

They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 9 and 10 for the carrying amount and note 2 'Property, plant and equipment' and 'Lessee Accounting' for the useful economic lives and information on how impairment for each class of asset is assessed

**4 Revenue**

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

	2020 £000	2019 £000
By area of activity:		
Lease income	17,327	7,454
	<u>17,327</u>	<u>7,454</u>

	2020 £000	2019 £000
By geographical area:		
United Kingdom	6,694	3,003
Australia	4,048	2,269
Europe	6,585	2,182
	<u>17,327</u>	<u>7,454</u>

**5 Exceptional items**

	2020 £000	2019 £000
Impairment of aircraft (Note 9)	(11,779)	(10,300)
Onerous lease provisions (Note 14)	-	(7,200)
	<u>(11,779)</u>	<u>(17,500)</u>

Exceptional items are those items which are exceptional in nature or size.

An onerous lease provision of £7.2m was taken against the leased Super Puma fleet in 2019 to reflect the excess of the present value cost of these commitments costs versus expected future cash flows.

During 2019, Management performed a full impairment review, concluding in a £10.3m impairment of owned assets to bring the Super Puma assets book value down to a reasonable estimated of their market value having considered the wider market opportunities. Assets and leases were marked to

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****5 Exceptional items (continued)**

current market value to allow for sale, sub lease or alternate use. A further impairment of £11.8m has been recorded in 2020.

**6 Finance income and finance costs**

	2020 £000	2019 £000
<b>Finance income:</b>		
Bank interest	-	9
Interest receivable from group undertakings	473	-
	<b>473</b>	<b>9</b>
<b>Finance costs:</b>		
Interest payable to group undertakings	1,778	1,303
Lease interest	3,813	-
Bank interest paid	18	-
	<b>5,609</b>	<b>1,303</b>

**7 Loss before tax**

Loss before tax is stated after charging / (crediting):

	2020 £000	2019 £000
Depreciation of tangible fixed assets	909	542
Operating lease costs	-	5,665
Impairment charge for aircraft and equipment	11,779	10,300
Right of use asset depreciation	18,617	-
Provision for onerous lease	-	7,200
Foreign exchange gains	(3,712)	(726)
Audit fees payable to the Company's auditors	38	40

The Company had no direct employees in the current year (2019: none) other than directors.

The directors are remunerated by other companies within the Group for their services to the Group as a whole and it is not practicable to allocate their remuneration between individual entities.

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



**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****8 Tax on Loss****Tax (credit)/expense included in income statement**

	2020 £000	2019 £000
<b>Current Tax:</b>		
Adjustment in respect of prior year	-	(1)
<b>Current tax credit for the year</b>	-	(1)
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	(1,880)	(1,431)
Adjustment in respect of prior years	(14)	1,720
Impact of change in UK tax rate	357	150
<b>Total deferred tax (credit)/ charge (note 15)</b>	(1,537)	439
<b>Tax on loss</b>	(1,537)	438

Tax (credit) for the year is lower (2019: charge higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

	2020 £000	2019 £000
<b>Loss before taxation</b>	(24,754)	(9,586)
Loss before taxation multiplied by standard UK corporation tax rate of 19% (2019: 19%)	(4,703)	(1,821)
<b>Effects of:</b>		
Impact on change in UK tax rate	357	150
Group relief surrendered for nil consideration	2,823	390
Prior year adjustments	-	(1)
Adjustments in respect of deferred tax for prior years	(14)	1,720
<b>Tax (credit)/charge for the year</b>	(1,537)	438

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% as this is the tax rate that will apply on reversal. As a result a (credit)/debit of £357,000 has been taken to the income statement in respect of the re-measurement of year end UK deferred tax balances to 19%.

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****9 Tangible fixed assets**

	<b>Assets under the course of construction £000</b>	<b>Aircraft and equipment £000</b>	<b>Total £000</b>
<b>Cost</b>			
At 1 April 2019	1,145	93,665	94,810
Translation	36	-	36
Additions	-	746	746
<b>At 31 March 2020</b>	<b>1,181</b>	<b>94,411</b>	<b>95,592</b>
<b>Accumulated depreciation</b>			
At 1 April 2019	-	(60,873)	(60,873)
Impairment	-	(11,779)	(11,779)
Charge for the year	-	(909)	(909)
<b>At 31 March 2020</b>	<b>-</b>	<b>(73,561)</b>	<b>(73,561)</b>
<b>Net book value</b>			
<b>At 31 March 2020</b>	<b>1,181</b>	<b>20,850</b>	<b>22,031</b>
At 31 March 2019	1,145	32,791	33,936

Assets in the course of construction represent deposits paid for aircraft.

During the year ended 31 March 2020 an impairment charge of £11,779,000 (2019: £10,300,000) was recognised in the income statement, representing the write down in the aircraft value in recognition of the overcapacity in the markets.

The write down was based on the estimated market value of the aircraft having made reference to external data sources for market values and managements' own plans for utilising the assets. There has been limited published sales activity so the estimated market values are judgemental.

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****10 Right-of-use assets**

	<b>Aircraft Fleet £000</b>
<b>Cost</b>	
On transition to IFRS 16 – 1 April 2019	97,029
Additions	10,623
Lease terminations	(3,710)
<b>At 31 March 2020</b>	<u>103,942</u>
<b>Accumulated depreciation</b>	
On transition to IFRS 16 - 1 April 2019	-
Transfer of onerous lease provision	(9,921)
Charge for the year	(18,617)
Lease terminations	3,710
<b>At 31 March 2020</b>	<u>(24,828)</u>
<b>Net book value</b>	
<b>At 31 March 2020</b>	<u>79,114</u>
On transition to IFRS 16 – 1 April 2019	<u>97,029</u>

**11 Trade and other receivables**

	<b>2020 £000</b>	<b>2019 £000</b>
<b>Amounts falling due within one year:</b>		
Amounts due by group undertakings	124,566	118,609
VAT recoverable	-	3
Other debtors	1,475	6,048
Prepayments and accrued income	1,366	611
	<u>127,407</u>	<u>125,271</u>
<b>Amounts due after more than one year:</b>		
Amounts due by group undertakings	18,609	7,200
Other debtors	179	8,494
	<u>146,195</u>	<u>140,965</u>

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

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****12 Trade and other payables**

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Trade payables	1,975	625
Other payables	-	1,020
Amounts due to group undertakings	822	-
Accruals and deferred income	4,453	1,596
	<u>7,250</u>	<u>3,241</u>
<b>Amounts falling due after more than one year:</b>		
	2020 £000	2019 £000
Amounts due to parent and group undertakings	44,367	32,716
	<u>44,367</u>	<u>32,716</u>

Amounts owed to parent and group undertakings, due after more than one year, bear interest at 4.25% (2019: 4.25%) per annum, are unsecured and have no fixed repayment terms.

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 19).

**13 Lease liabilities**

The entity leases aircraft under non-cancellable operating leases.

The lease obligations are due as follows:

	2020 £000	2019 £000
<b>Lease Liabilities</b>		
Due less than one year	15,687	-
Due more than one year	78,821	-
<b>Total</b>	<u>94,508</u>	<u>-</u>

The lease obligations are repayable as follows:

	2020 £000	2019 £000
<b>Lease Liabilities</b>		
Within one year	15,687	-
Between two and five years	66,688	-
After five years	12,133	-
<b>Total</b>	<u>94,508</u>	<u>-</u>

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****14 Provisions for liabilities**

	<b>Total £000</b>
At 1 April 2019	9,921
Transfer to Right-of-use asset accumulated depreciation on transition to IFRS 16	(9,921)
<b>At 31 March 2020</b>	<b>-</b>

The calculation of these provisions involves the use of estimates.

*Onerous lease*

The company has included a provision for £nil (2019: £9,921,000) for unavoidable losses on onerous aircraft leases to reflect the cost commitments versus current market rates. For leases with onerous lease provisions recognised against them immediately prior to the date of transition to IFRS 16, the provisions have been transferred and offset against the right-of-use assets on the date of transition.

**15 Deferred tax liability**

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

	<b>Accelerated capital allowances £000</b>	<b>Other £000</b>	<b>Total £000</b>
<b>Deferred tax liabilities</b>			
<b>At 1 April 2018:</b>	4,330	(1,717)	2,613
- (Credited)/charged to the income statement	(1,278)	1,717	439
<b>31 March 2019:</b>	<b>3,052</b>	<b>-</b>	<b>3,052</b>
- (Credited)/charged to the income statement	(1,537)	-	(1,537)
<b>31 March 2020:</b>	<b>1,515</b>	<b>-</b>	<b>1,515</b>

The deferred tax liability is expected to reverse completely during the year ending March 2021.

**16 Called up share capital**

	<b>2020 £000</b>	<b>2019 £000</b>
<b>Allotted, called up and fully paid</b>		
50,100 ordinary shares of £1 each (2019: 50,100)	<b>50</b>	<b>50</b>

**17 Related party disclosures**

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

## **Babcock Mission Critical Services Leasing Limited**

### **Notes to the financial statements (continued)**

#### **18 Subsidiary, and associate and Joint Venture undertakings**

All related undertakings for the Company are as listed below:

<b>Company Name</b>	<b>Country</b>	<b>Address</b>	<b>Interest</b>	<b>Direct %</b>	<b>Ultimate%</b>
Babcock Malta (Number Two) Limited	Jersey	44 Esplanade, St Helier, Jersey	100 Ordinary shares	100.0%	100.0%

The company has fully impaired the investment to £nil (2019: £nil).

#### **19 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 (2019: £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 (2019: £nil).

#### **20 Immediate and ultimate parent undertakings**

The Company's immediate parent company is Babcock Mission Critical Design and Completions Limited, 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:

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

#### **21 Effects of changes in accounting policies**

IFRS 16 has become effective from 1 January 2019 and replaces IAS 17, 'Leases' as the definitive accounting standard for the recognition, measurement and disclosure of leases. The company adopted the standard from 1 April 2019.

Under the new standard, lessees will recognise almost all leases on the statement of financial position as the distinction between finance leases and operating leases is removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments can be recognised as expenses on a straight-line basis. The approach for lessors remains largely Unchanged.

The Company has adopted the modified retrospective transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for the majority of leases. The lease liability is calculated as the present value of the minimum lease payments on the date of transition. For a number of high value property and aircraft leases however, the right-of-use assets have been calculated as if the leases had always existed and their value on the date of transition is measured as the present value of the minimum lease payments at the inception date less accrued depreciation and any impairments. The difference between the right-of-use assets and lease liabilities on the date of transition is taken to retained earnings. Comparative figures will not be restated for the year ended 31 March 2019.

**Babcock Mission Critical Services Leasing Limited****Notes to the financial statements (continued)****21 Effects of changes in accounting policies (continued)**

The Company has completed its transition to IFRS 16 and has taken advantage of permitted expedience to exclude leases under £5,000, leases of less than one year and service contracts in place at the date of transition.

The weighted average incremental borrowing rate applied by the company to the lease liabilities on 1 April 2019 was 3.89%.

The impact on the company statement of financial position at 1 April 2019 is reflected below:

	Adjustments	31 March 2019 As originally presented £000	IFRS16 £000	1 April 2019 £000
<b><u>Assets</u></b>				
Right-of-use-assets	(a)	-	97,029	97,029
Transfer of onerous lease provision	(c)	-	(9,921)	(9,921)
<b><u>Liabilities</u></b>				
Lease liabilities	(b)	-	(97,029)	(97,029)
Provisions for liabilities	(c)	(9,921)	9,921	-

- a) The adjustment to right-of-use assets is to include operating type leases £97,029,000
- b) The adjustment to lease liabilities is to include operating type lease commitments and below is the reconciliation of the minimum lease commitments disclosed in 31 March 2019 financial statements to the amount of lease liabilities recognised on 1 April 2019.
- c) The adjustment is to transfer the onerous aircraft lease provision to Right-of-use asset accumulated depreciation.

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	Total £000
Aircraft Operating Lease commitments at 31 March 2019	64,854
Effect of discounting	(10,926)
Changes in assessment of lease term	43,101
<b>IFRS 16 lease liability at 1 April 2019</b>	<b>97,029</b>

**Babcock Mission Critical Services Leasing Limited**

**Notes to the financial statements** *(continued)*

**21 Effects of changes in accounting policies** *(continued)*

The minimum operating lease payments for the previous year were:

	<b>2019</b> <b>£000</b>
<b>Future minimum aircraft rentals payable under non-cancellable operating leases:</b>	
- Within one year	10,800
- Between two and five years	31,802
- After five years	22,252
	<hr/> <b>64,854</b> <hr/>