

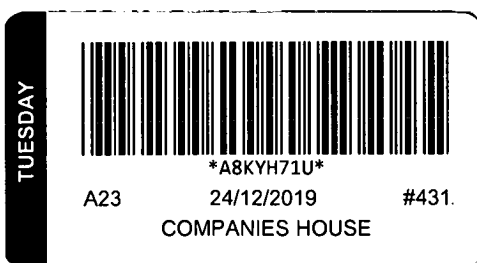
**Babcock Critical Services Limited**

**Annual report and financial statements**

**For the year ended 31 March 2019**

**Company registration number:**

**SC046710**



# **Babcock Critical Services Limited**

## **Directors and advisors**

### **Current directors**

Parker, J R  
White, S M  
Taylor, R H  
Hayward, M

### **Company secretary**

Babcock Corporate Secretaries Limited

### **Registered office**

110 Queen Street  
Glasgow  
G1 3HD

### **Independent auditors**

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

## **Babcock Critical Services Limited**

### **Strategic report**

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

### **Principal activities**

The company provides support services operations in the Emergency Services, Mining & Construction and Aviation sectors. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

### **Review of the business**

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Revenue	<b>99,625</b>	105,191
(Loss)/profit before interest and tax	<b>(25,903)</b>	16,004
Net assets	<b>11,927</b>	37,393

Performance was in line with expectations. The £5.6m decrease in revenue is primarily due to the timing of asset purchases for customers in the Emergency Services sector. The £41.9m decrease in profit before interest and tax is primarily due to the fact dividend income was received in 2018 but not in 2019 and a reduction in the carrying value of investment in Babcock Vehicle Engineering Limited in 2019, offset by a gain on a property that was sold during the year.

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

### **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 overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain quality staff. 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**

On 30 June 2019 the company's fleet management contract with British Airways at Heathrow Airport ended with the relevant staff transferring to the new provider. With effect from December 2019 the company has also taken the decision to exit the Mining and Construction sector. The company continues to pursue and develop opportunities within the various sectors of fleet management support and is confident that further revenue growth will be achieved to replace the decline in the Aviation and exit from the Mining and Construction sectors.

## **Babcock Critical Services Limited**

### **Strategic report** *(continued)*

#### **Key performance indicators**

The company's activities are managed on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the company, is discussed on pages 43 to 45 of the Group's report, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles; being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to be satisfied with the level of performance.

On behalf of the board



**J R Parker**  
**Director**

20 December 2019

## **Babcock Critical Services Limited**

### **Directors' report**

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

### **Dividends**

An interim dividend of £nil was paid in the year (2018: £nil). No final dividend for the year ended 31 March 2019 has been proposed by the directors (2018: £nil).

### **Future developments**

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

### **Financial risk management**

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

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

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

#### *Price risk*

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

#### *Credit risk*

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

#### *Liquidity risk*

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

## **Babcock Critical Services Limited**

### **Directors' report** *(continued)*

#### **Financial risk management** *(continued)*

##### *Interest rate risk*

The company has interest-bearing assets. Cash balances accrue interest at a floating rate and intercompany receivables accrue interest at a fixed rate. The company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

#### **Directors**

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

J R Parker

R H Taylor

S M White

T Newman (Appointed 30 April 2018), (Resigned 17 January 2019)

S West (Appointed 30 April 2018), (Resigned 8 November 2019)

M Hayward (Appointed 17 January 2019)

#### **Employment of disabled persons**

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

#### **Employee involvement**

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

#### **Safety policy**

The company recognises the promotion of health and safety at work as an important objective. It is company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the company.

#### **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.

## **Babcock Critical Services Limited**

### **Directors' report (*continued*)**

#### **Environment**

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

The company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

#### **Going concern**

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed.

#### **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

#### **Directors' confirmations**

In the case of each director in office at the date the Directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

## **Babcock Critical Services Limited**

### **Directors' report** *(continued)*

#### **Directors' confirmations** *(continued)*

- 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 that information.

#### **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.

#### **Reappointment of auditors**

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

On behalf of the board



**J R Parker**  
**Director**

20 December 2019



## **Babcock Critical Services Limited**

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

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

##### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its 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 and financial statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2019; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

##### **Basis for opinion**

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

##### *Independence*

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

##### **Conclusions relating to going concern**

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

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

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

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

## **Babcock Critical Services Limited**

### **Independent auditors' report to the members of Babcock Critical Services Limited** *(continued)*

#### **Reporting on other information**

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

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

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

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

#### *Strategic report and Directors' report*

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

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

#### **Responsibilities for the financial statements and the audit**

##### *Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements set out on page 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

##### *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.

## **Babcock Critical Services Limited**

### **Independent auditors' report to the members of Babcock Critical Services Limited** *(continued)*

#### *Auditors' responsibilities for the audit of the financial statements (continued)*

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.

#### *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.



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

**20** December 2019

# Babcock Critical Services Limited

## Income Statement

for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	99,625	105,191
Cost of sales		(91,608)	(93,681)
<b>Gross profit</b>		<b>8,017</b>	<b>11,510</b>
Administrative expenses		(8,336)	(11,882)
Gain on disposal of property	5	7,439	-
Exceptional item	5	(33,023)	-
<b>Operating loss</b>	5	<b>(25,903)</b>	<b>(372)</b>
Income from shares in group undertakings		-	16,376
<b>(Loss)/profit before interest and taxation</b>		<b>(25,903)</b>	<b>16,004</b>
Finance income	6	654	973
Finance expenses	6	(103)	(413)
Other finance income - pensions	22	81	60
<b>(Loss)/profit before taxation</b>		<b>(25,271)</b>	<b>16,624</b>
Income tax expense	9	(142)	(187)
<b>(Loss)/profit for the financial year</b>		<b>(25,413)</b>	<b>16,437</b>

All of the above results derive from continuing operations.

## Statement of Comprehensive Income

for the year ended 31 March 2019

	Note	2019 £000	2018 £000
<b>(Loss)/profit for the financial year</b>		<b>(25,413)</b>	<b>16,437</b>
(Loss)/gain on re-measurement of net defined benefit obligation	22	(56)	396
Tax on net defined benefit obligation		3	(58)
<b>Total other comprehensive (loss)/income</b>		<b>(53)</b>	<b>338</b>
<b>Total comprehensive (loss)/income</b>		<b>(25,466)</b>	<b>16,775</b>

# Babcock Critical Services Limited

## Statement of Financial Position

as at 31 March 2019

	Note	2019 £000	2018 £000
<b>Non current assets</b>			
Intangible assets	10	791	1,382
Property, plant and equipment	11	6,854	8,862
Investments	12	33,330	66,353
Pension asset	22	2,631	3,027
		<u>43,606</u>	<u>79,624</u>
<b>Current assets</b>			
Inventories	13	1,857	1,546
Trade and other receivables	14	54,676	60,498
Cash and cash equivalents		31,056	15,625
		<u>87,589</u>	<u>77,669</u>
Trade and other payables	15	(117,657)	(118,451)
<b>Net current liabilities</b>		<u>(30,068)</u>	<u>(40,782)</u>
<b>Total assets less current liabilities</b>		<u>13,538</u>	<u>38,842</u>
Provisions for liabilities	16	(1,611)	(1,449)
<b>Net assets</b>		<u>11,927</u>	<u>37,393</u>
<b>Equity</b>			
Called up share capital	18	19,908	19,908
(Accumulated Losses)/Retained Earnings		<u>(7,981)</u>	<u>17,485</u>
<b>Total shareholders' funds</b>		<u>11,927</u>	<u>37,393</u>

The notes on pages 14 to 38 are an integral part of these financial statements.

The financial statements on pages 11 to 38 were approved by the Board of Directors and signed on its behalf by:



J R Parker  
Director  
20 December 2019

# Babcock Critical Services Limited

## Statement of Changes in Equity

for the year ended 31 March 2019

	Called-up share capital	Retained Earnings/ (Accumulated Losses)	Total Shareholders' Funds
	£000	£000	£000
<b>Balance at 1 April 2017</b>	19,908	710	20,618
Profit for the financial year	-	16,437	16,437
Other comprehensive income	-	338	338
<b>Total comprehensive income for the year</b>	-	16,775	16,775
<b>Balance at 31 March 2018</b>	19,908	17,485	37,393
(Loss) for the financial year	-	(25,413)	(25,413)
Other comprehensive loss	-	(53)	(53)
<b>Total comprehensive loss for the year</b>	-	(25,466)	(25,466)
<b>Balance at 31 March 2019</b>	19,908	(7,981)	11,927

# **Babcock Critical Services Limited**

## **Notes to the financial statements**

### **1 General information**

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

### **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, unless otherwise stated.

#### **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 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 Critical Assets Holdings LLP and of its ultimate parent, Babcock International Group PLC, a company incorporated in England. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

- a) 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 following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- e) IAS 7, 'Statement of cash flows'
- f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

## **Babcock Critical Services Limited**

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

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

##### **Basis of preparation (*continued*)**

- g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

##### **Going concern**

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed.

##### **Adoption of new and revised standards**

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

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

IFRS 15, '*Revenue from Contracts with Customers*' (effective 1 January 2018), replaces existing revenue recognition standards and the accounting policies have been updated to reflect the five step approach to revenue recognition required by IFRS 15. 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.



## **Babcock Critical Services Limited**

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

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

##### **Revenue *(continued)***

###### **(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.

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.

# **Babcock Critical Services Limited**

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

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

#### **Revenue *(continued)***

##### **(c) Revenue and profit recognition *(continued)***

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 company 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.

##### **(f) Principal versus agent considerations**

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

## **Babcock Critical Services Limited**

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

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

##### **Intangible assets**

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight line basis as follows:

##### *a) Research and development*

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

##### *b) Computer software*

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

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

Property, plant and equipment (PPE) 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:

Land	Not depreciated
Freehold property	2% to 8% straight line
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3% straight line

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

##### **Investments**

Fixed asset investments are stated at cost less provision for impairment in value.

##### **Inventory**

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.

# **Babcock Critical Services Limited**

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

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

#### **Financial instruments**

##### **(i) Financial assets**

Basic financial assets, including trade and other receivables, cash and bank balances and amounts owned by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

##### **(ii) Financial liabilities**

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

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

##### **(iii) Offsetting**

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

## **Babcock Critical Services 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 financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

##### **Pensions costs and other post-retirement benefits**

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

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

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

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

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

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

## **Babcock Critical Services Limited**

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

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

##### **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.

The Company will adopt IFRS 16 'Leases', which has been issued by the IASB and endorsed by the EU in the next financial year. This is a significant new standard for the company and the expected impacts are discussed below.

IFRS 16 will primarily change lease accounting for lessees; lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right to use asset and interest on the lease liability. Lessee accounting under IFRS 16 will be similar in many respects to existing IAS 17 accounting for finance leases, but will be substantively different to existing accounting for operating leases where rental charges are currently recognised on a straight-line basis and no lease asset or related lease creditor is recognised.

The adoption of IFRS 16 will result in an increase in the tangible assets and corresponding lease liabilities recognised by the Company.

##### **Provisions for liabilities**

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

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

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

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of

## **Babcock Critical Services Limited**

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

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

##### **Provisions for liabilities (*continued*)**

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.

##### **Dividends**

Dividends are recognised as a liability in the company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

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

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following 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.

##### **Defined benefit pension scheme**

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 22 for the disclosures of the defined benefit pension scheme.

##### **Investment impairment review**

The directors test annually whether the investments are impaired. The directors prepare a value in use calculation, which involves estimating future cashflows and using appropriate assumptions such as discount rate and future growth rates. The value in use represents the directors' best estimate of the value of the underlying business.

## Babcock Critical Services Limited

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

#### 4 Revenue

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

	2019 £000	2018 £000
By area of activity:		
Rendering of services	99,625	105,191
	<b>99,625</b>	<b>105,191</b>

All the revenue in the year ended 31 March 2019 and year ended 31 March 2018 originated in the United Kingdom.

#### 5 Operating (loss)

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

	2019 £000	2018 £000
Gain on disposal of property, plant and equipment	(7,439)	-
Depreciation of property, plant and equipment	807	1,168
Amortisation of intangible assets	373	290
Inventory charged	9,688	10,873
Operating lease charges – Land and Buildings	1,039	736
Operating lease charges – Other	1,469	824
Audit fees payable to the company's auditors	30	40

Then gain on disposal of property, plant and equipment relates to the disposal of the company's workshop at Camberwell.

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.

Exceptional item charged to the Income Statement was as follows:

	2019 £000	2018 £000
Reduction in carrying value of investment in Babcock Vehicle Engineering Limited.	(33,023)	-
	<b>(33,023)</b>	<b>-</b>



# Babcock Critical Services Limited

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

### 6 Finance income and expenses

	2019 £000	2018 £000
<b>Finance income:</b>		
Bank Interest	11	-
Foreign exchange	205	236
Loan interest receivable from group undertakings	438	737
	<u>654</u>	<u>973</u>
	2019 £000	2018 £000
<b>Finance expenses:</b>		
Bank Interest	-	(150)
Foreign exchange	(103)	(263)
	<u>(103)</u>	<u>(413)</u>

### 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
<b>By activity:</b>		
Operations	649	670
Management and administration	27	27
	<u>676</u>	<u>697</u>

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	26,746	26,667
Social security costs	2,724	2,745
Other pension costs	3,141	1,984
	<u>32,611</u>	<u>31,396</u>

Included in other pension costs are £1,346,000 (2018: £628,000) in respect of the defined benefit schemes and £1,795,000 (2018: £1,356,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

## Babcock Critical Services Limited

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

#### 8 Directors' remuneration

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

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
The remuneration of the directors which was paid by the company was as follows:		
Emoluments (including benefits in-kind)	<b>430</b>	<b>416</b>
Defined contribution pension scheme	<b>42</b>	<b>20</b>
	<b>472</b>	<b>436</b>

Retirement benefits are accruing to two directors (2018: two) under the defined contribution pension scheme.

Except for two directors (2018: two), all of the directors of the company are remunerated by other Babcock International Group PLC 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 International Group PLC companies.

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

	<b>2019</b>	<b>2018</b>
	<b>£000</b>	<b>£000</b>
Emoluments (excluding pension contributions)	<b>221</b>	<b>234</b>
Defined contribution pension scheme	<b>25</b>	<b>14</b>

# **Babcock Critical Services Limited**

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

### **9 Income tax expense**

#### **Tax expense / (credit) included in income statement**

	<b>2019 £000</b>	<b>2018 £000</b>
<b>Current tax:</b>		
UK Corporation tax on profits for the year	<b>197</b>	<b>-</b>
<b>Current tax charge for the year</b>	<b>197</b>	<b>-</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<b>(10)</b>	<b>122</b>
Adjustment in respect of prior years	<b>(39)</b>	<b>68</b>
Impact of change in UK tax rate	<b>(6)</b>	<b>(3)</b>
<b>Total deferred tax (credit)/charge (note 17)</b>	<b>(55)</b>	<b>187</b>
<b>Total tax charge for the year</b>	<b>142</b>	<b>187</b>

#### **Tax (income)/expense included in other comprehensive income**

	<b>2019 £'000</b>	<b>2018 £'000</b>
<b>Deferred tax:</b>		
- Tax impact of actuarial gains/losses on pension liability	<b>(11)</b>	<b>75</b>
- Impact of change in UK tax rates	<b>8</b>	<b>(17)</b>
<b>Tax expense / (income) included in other comprehensive income</b>	<b>(3)</b>	<b>58</b>

# Babcock Critical Services Limited

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

### 9 Income tax expense *(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
<b>(Loss)/profit before taxation</b>	<b>(25,271)</b>	<b>16,624</b>
<b>(Loss)/profit multiplied by standard UK corporation tax rate of 19% (2018: 19%)</b>	<b>(4,801)</b>	<b>3,159</b>
Effects of:		
Expenses not deductible for tax/income not chargeable to tax	4,988	-
Group relief for nil consideration	-	(722)
Non-taxable income	-	(2,314)
Unrelieved tax losses	-	-
Adjustment in respect of prior years	(39)	67
Impact of change in UK tax rate	(6)	(3)
<b>Total tax charge for the year</b>	<b>142</b>	<b>187</b>

In the 2016 UK Budget, it was announced that the UK corporation tax rate will be 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

	Computer Software £000	Research and Development £000	Total £000
<b>Cost</b>			
At 1 April 2018	1,759	1,221	2,980
Additions	57	-	57
Disposals	(275)	-	(275)
<b>At 31 March 2019</b>	<b>1,541</b>	<b>1,221</b>	<b>2,762</b>
<b>Accumulated amortisation</b>			
At 1 April 2018	(396)	(1,202)	(1,598)
Amortisation	(354)	(19)	(373)
<b>At 31 March 2019</b>	<b>(750)</b>	<b>(1,221)</b>	<b>(1,971)</b>
<b>Net book value</b>			
<b>At 31 March 2019</b>	<b>791</b>	<b>-</b>	<b>791</b>
At 31 March 2018	1,363	19	1,382

Intangible assets amortisation is recorded in administrative expenses in the income statement.

# Babcock Critical Services Limited

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

### 11 Property, plant and equipment

	Land £000	Freehold & Leasehold Buildings £000	Plant and equipment £000	Total £000
<b>Cost</b>				
At 1 April 2018	3,249	4,768	12,218	20,235
Additions	-	-	28	28
Disposals	(476)	(1,582)	(593)	(2,651)
<b>At 31 March 2019</b>	<b>2,773</b>	<b>3,186</b>	<b>11,653</b>	<b>17,612</b>
<b>Accumulated depreciation</b>				
At 1 April 2018	-	(1,877)	(9,496)	(11,373)
Charge for the year	-	(299)	(508)	(807)
Disposals	-	856	566	1,422
<b>At 31 March 2019</b>	<b>-</b>	<b>(1,320)</b>	<b>(9,438)</b>	<b>(10,758)</b>
<b>Net book value</b>				
<b>At 31 March 2019</b>	<b>2,773</b>	<b>1,866</b>	<b>2,215</b>	<b>6,854</b>
At 31 March 2018	3,249	2,891	2,722	8,862

The net book value of leasehold property (from the Freehold & Leasehold Buildings classification above) comprises:

	2019 £000	2018 £000
Long leasehold	1,275	2,170
Net book value	1,275	2,170

# Babcock Critical Services Limited

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

### 12 Investments

	2019 Shares in group undertakings £000	2018 Shares in group undertakings £000
<b>Cost</b>		
At 1 April:	66,353	66,353
Impairments charged to the income statement	(33,023)	-
<b>Carrying amount at 31 March</b>	<b>33,330</b>	<b>66,353</b>

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

Details of the investments are outlined in note 23.

### 13 Inventories

	2019 £000	2018 £000
Finished goods and goods for resale	1,857	1,546
	<b>1,857</b>	<b>1,546</b>

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. Inventories are stated after provision for impairment of £327,374 (2018: £383,723).

### 14 Trade and other receivables

	2019 £000	2018 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	10,594	7,047
Contract assets* – amounts due from customers for contract work	5,392	4,731
Amounts owed by group undertakings	36,398	41,007
Accrued income*	-	6,095
Other receivables and prepayments	2,292	1,618
	<b>54,676</b>	<b>60,498</b>

\* As a result of adopting IFRS 15 under the modified approach, prior year balances in relation to accrued income and contract assets have not been restated. Amounts that would have been previously reported as accrued income have been included within trade receivables of £4,183,000 in results to 31 March 2019.

Amounts owed by group undertakings are unsecured and repayable on demand. Loan interest receivable from group undertakings is £412,000 (2018: £412,000). The interest rate on the loan is 2.75%.

Trade receivables are stated after expected credit losses of £101,000 (2018: £395,000).

# Babcock Critical Services Limited

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

### 15 Trade and other payables

	2019 £000	2018 £000
<b>Amounts falling due within one year:</b>		
Trade payables	7,246	9,381
Amounts owed to parent and group undertakings	94,210	94,094
Other taxation and social security	2,969	2,814
UK corporation tax payable	197	-
Accruals and deferred income	10,416	12,162
Contract liabilities	2,619	-
	<b>117,657</b>	<b>118,451</b>

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand.

Contract liabilities relate to deferred income balances. These balances have been reclassified as contract liabilities on the adoption of IFRS 15. The prior year has not been restated, the balance included in accruals and deferred income relating to contract liabilities in 2018 is £2,760,000.

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(a)).

### 16 Provisions for liabilities

	Dilapidations provision £000	Deferred taxation £000	Loss provision £000	Total £000
At 1 April 2018	749	700	-	1,449
Charged/(credited) to the income statement	(347)	(55)	567	165
Charged/(credited) to other comprehensive income	-	(3)	-	(3)
<b>At 31 March 2019</b>	<b>402</b>	<b>642</b>	<b>567</b>	<b>1,611</b>

#### *Dilapidation provisions*

Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

#### *Loss provision*

The loss provision reserve captures contracts that have become loss making during the year and we expect the amounts provided to be utilised within the next 12 months.

# Babcock Critical Services Limited

## Notes to the financial statements (continued)

### 17 Deferred taxation

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

	Pension (asset)/liability	Accelerated capital allowances	Other	Total
	£000	£000	£000	£000
<b>Deferred tax liabilities/(assets)</b>				
At 1 April 2017:	177	291	(13)	455
- Charged/(credited) to the income statement	280	(106)	13	187
- Charged to other comprehensive income	58	-	-	58
At 1 April 2018:	515	185	-	700
- (Credited)/charged to the income statement	(65)	10	-	(55)
- (Credited)/charged to other comprehensive income	(3)	-	-	(3)
At 31 March 2019:	447	195	-	642

### 18 Called up Share capital

	2019 £000	2018 £000
<b>Allotted and fully paid</b>		
19,908,300 ordinary shares of £1 each (2018: 19,908,300)	19,908	19,908

### 19 Dividends

Dividends declared and paid were £nil (2018: £nil), this is equivalent to £nil per share (2018: £nil). There are no plans for a final dividend. Dividends received were £nil (2018: £16,375,520).



## Babcock Critical Services Limited

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

#### 20 Guarantees and financial commitments

##### a) Contingent liabilities

At the year end 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 at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil million (2018: £nil million).

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

##### b) Operating lease commitments

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

	<b>2019 Land and buildings £000</b>	<b>2019 Other £000</b>	<b>2018 Land and buildings £000</b>	<b>2018 Other £000</b>
Future minimum rentals payable under non-cancellable operating leases:				
- Not later than one year	269	202	323	328
- Later than one year and not later than five years	400	283	585	130
- Later than five years	23	-	-	15
	<b>692</b>	<b>485</b>	<b>908</b>	<b>473</b>

The entity leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases vehicles under non-cancellable operating leases.

## Babcock Critical Services Limited

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

#### 21 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.

During the year the company also entered into transactions in the ordinary course of business with Cura Classis UK Limited, a company which is 48% owned by Babcock International Group PLC.

Transactions entered into and trading balances outstanding at 31 March 2019 are as follows:

	<b>Sales to related party £000</b>	<b>Purchases from related party £000</b>	<b>Amounts owed by related party £000</b>	<b>Amounts owed to related party £000</b>
Related party				
Cura Classis UK Limited	1,614	-	-	-

Transactions entered into and trading balances outstanding at 31 March 2018 are as follows:

	<b>Sales to related party £000</b>	<b>Purchases from related party £000</b>	<b>Amounts owed by related party £000</b>	<b>Amounts owed to related party £000</b>
Related party				
Cura Classis UK Limited	3,637	-	102	-

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

## **Babcock Critical Services Limited**

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

#### **22 Pension asset**

The company accounts for pension costs in accordance with IAS 19. The company contributes to a defined contribution scheme in the UK in respect of a number of its employees, at a cost of £1,795,000 (2018: £1,356,000). The company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and the share which has been recognised in these financial statements are detailed in this note.

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

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

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

#### **Babcock International Group PLC Pension Scheme**

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

#### **Guaranteed minimum pension in the United Kingdom**

On 26 October 2017, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. The past service costs totalling £13.6 million reflect our estimate of the extent to which the judgment crystallises additional liabilities for our pension schemes.

## Babcock Critical Services Limited

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

#### 22 Pension asset *(continued)*

	2019 %	2018 %	2017 %
<b>Major assumptions</b>			
Rate of increase in salaries	2.3	2.2	2.3
Rate of increase in pension payment	3.0	2.9	3.0
Discount rate	2.4	2.6	2.6
Inflation	2.1	2.0	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2019/20 are £21.7m. The future service rate is 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £21.7m is £8.5m of deficit recovery payments. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2019 Years	2018 Years	2017 Years
Life expectancy from age 65 (male age 65)	21.7	22.2	22.6
Life expectancy from age 65 (male age 45)	22.7	23.2	23.7

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

	Defined benefit obligations 2019 £000	Income statement 2019 £000
Initial assumptions	1,359,140	10,909
Discount rate assumptions increased by 0.5%	(98,810)	(5,658)
Discount rate assumptions decreased by 0.5%	98,809	2,282
Inflation rate assumptions increased by 0.5%	61,297	2,303
Inflation rate assumptions decreased by 0.5%	(55,589)	(2,102)
Total life expectancy increased by half a year	28,406	838
Total life expectancy decreased by half a year	(28,406)	(839)
Salary increase assumptions increased by 0.5%	8,834	605
Salary increase assumptions decreased by 0.5%	(8,835)	(605)

The weighted average duration of cash flows (years) was 16.

## Babcock Critical Services Limited

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

#### 22 Pension asset (*continued*)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2019 were:

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

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

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

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

<b>Analysis of amount charged to the income statement in Babcock International Group Plc</b>	<b>2019 £000</b>	<b>2018 £000</b>
Current service cost	9,615	10,253
Incurred expenses	1,965	2,232
Past service cost	13,646	-
Settlement	220	-
Total included within operating profit	25,446	12,485
Net interest income	(1,523)	(1,194)
<b>Total charged to the income statement</b>	<b>23,923</b>	<b>11,291</b>

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £1,346,000 for service cost and incurred expenses (2018: £628,000), and net interest income of £81,000 (2018: net interest income of £60,000).

# Babcock Critical Services Limited

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

### 22 Pension asset (*continued*)

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2019 £000	2018 £000
Actuarial (loss)/gain recognised in the SOCl	(4,076)	42,819
Experience gain/(loss)	3,181	(33,301)
Other losses	(8,667)	(439)
	<u>(9,562)</u>	<u>9,079</u>

The actuarial loss recognised in the SOCl in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £56,000 (2018: gain of £396,000).

The equity investments and bonds are valued at bid price.

	2019 £000	2018 £000
<b>Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc</b>		

At 1 April	1,440,828	1,416,009
Interest income	36,495	36,252
Employee contributions	272	404
Employer contributions	23,009	18,090
Benefits paid	(102,320)	(76,476)
Settlement	(2,761)	-
Actuarial gain	13,341	46,549
At 31 March	<u>1,408,864</u>	<u>1,440,828</u>

	2019 £000	2018 £000
<b>Reconciliation of present value of scheme liabilities in Babcock International Group plc</b>		

At 1 April	1,380,628	1,371,687
Service cost	9,615	10,253
Incurred expenses	1,965	2,232
Interest on liabilities	34,972	35,058
Employee contributions	272	404
Actuarial (gain)/loss – demographics	(21,380)	11,172
Actuarial loss/(gain) – financial	47,464	(7,003)
Experience (gains)/losses	(3,181)	33,301
Benefits paid	(102,320)	(76,476)
Settlement	(2,541)	-
Past service cost	13,646	-
At 31 March	<u>1,359,140</u>	<u>1,380,628</u>

## **Babcock Critical Services Limited**

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

#### **22 Pension asset (*continued*)**

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £2,631,000 (2018: asset of £3,027,000).

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

All related undertakings for the company are as listed below:

<b>Company Name</b>	<b>Country</b>	<b>Direct %</b>	<b>Ultimate%</b>
Chart Services Limited	Scotland	100.0%	100.0%
Transfleet Distribution Limited	England	100.0%	100.0%
Transfleet Truck Rentals Limited	England	100.0%	100.0%
Chart Distribution Services Limited	England	0%	100.0%
Municipal Vehicle Hire Limited	England	0%	100.0%
Chart Storage & Transportation Limited	England	0%	100.0%
Babcock Vehicle Engineering Limited	England	100.0%	100.0%

The registered office of all undertakings with the exception of Chart Services Limited is 33 Wigmore Street, London, W1U 1QX. The registered office of Chart Services Limited is Dwf LLP, 110 Queen Street, Glasgow. All subsidiary undertakings are incorporated and operate in the United Kingdom.

#### **24 Ultimate parent undertaking**

The company's immediate parent company is Babcock Critical Asset Holdings LLP, a limited liability partnership registered in England and Wales. The company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

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

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