Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2018

Company registration number:

SC046710

Directors and advisors

Current directors
Parker, J R
White, S M
Taylor, R H
West, S
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

Strategic report for the year ended 31 March 2018

The directors present their Strategic report on the Company for the year ended 31 March 2018.

Principal activities

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

Review of the business

	2018 £000	2017 £000
Turnover	**105,191**	108,144
Profit before interest and tax	**16,004**	4,935
Net assets	**37,393**	20,618

Performance was broadly in line with expectations. The £11.1m increase in profit before interest and tax arose primarily from a £7.5m increase in dividends received

The growth and performance of Land, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 38 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 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2018 *(continued)*

Future developments

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 seen over the course of the coming one to two years.

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.

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 express a high level of satisfaction with this performance.

On behalf of the board

J R Parker
Director
15 March 2019

Directors' report for the year ended 31 March 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Dividends

An interim dividend of £Nil (2017: £8.9m) representing £Nil per ordinary share (2017: £0.444 per ordinary share) was declared and paid in the year. No final dividend for the year ended 31 March 2018 has been provided by the directors (2017: £nil).

Future developments

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

Financial risk management

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 68 to 79 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 accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors

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

J Davies (Resigned 9 January 2018)
J Parker
I Urquhart (Resigned 15 January 2018)
R Taylor
S White
T Newman (Appointed 30 April 2018 and resigned 17 January 2019)
S West (Appointed 30 April 2018)
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.

Directors' report for the year ended 31 March 2018 *(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

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

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

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

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

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

Directors' report for the year ended 31 March 2018 *(continued)*

Statement of directors' responsibilities *(continued)*

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
- 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.

On behalf of the board

J R Parker
Director

15 March 2019

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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and the financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2018; 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, which is currently due to occur on 29 March 2019, 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.

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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

SLewis

Sasha Lewis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
15 March 2019

Babcock Critical Services Limited

Income statement
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue	4	**105,191**	108,144
Cost of sales		**(93,681)**	(104,274)
Gross profit		**11,510**	3,870
Administrative expenses		**(11,882)**	(7,794)
Operating loss	5	**(372)**	(3,924)
Income from shares in group undertakings	19	**16,376**	8,859
Profit before interest and taxation		**16,004**	4,935
Finance income	6	**973**	556
Finance costs	6	**(413)**	(92)
Other finance income/(costs) - pensions	22	**60**	(32)
Profit before taxation		**16,624**	5,367
Income tax (expense)/credit	9	**(187)**	144
Profit for the year		**16,437**	5,511

All of the above results derive from continuing operations.

Statement of comprehensive income
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Profit for the year		**16,437**	5,511
Gain on re-measurement of net defined benefit obligation	22	**396**	4,808
Tax on net defined benefit obligation		**(58)**	(842)
Other comprehensive income for the year:		**338**	3,966
Total comprehensive income for the year		**16,775**	9,477

Balance sheet
as at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	10	**1,382**	1,310
Property, plant and equipment	11	**8,862**	9,933
Investments	12	**66,353**	66,353
Pension asset	22	**3,027**	2,161
		79,624	79,757
Current assets			
Inventories	13	**1,546**	2,512
Trade and other receivables	14	**60,498**	47,984
Cash and cash equivalents		**15,625**	11,972
		77,669	62,468
Trade and other payables	15	**(118,451)**	(121,094)
Net current liabilities		**(40,782)**	(58,626)
Total assets less current liabilities		**38,842**	21,131
Provision for liabilities	16	**(1,449)**	(513)
Net assets		**37,393**	20,618
Equity			
Called up share capital	18	**19,908**	19,908
Retained earnings		**17,485**	710
Total shareholders' funds		**37,393**	20,618

The notes on pages 13 to 38 are an integral part of these financial statements.

The financial statements on pages 10 to 38 were approved by the board of directors and signed on its behalf by:

J R Parker
Director
15 March 2019

Statement of changes in equity
for the year ended 31 March 2018

	Note	Called-up share capital £000	Retained Earnings £000	Total Share-holders Funds £000
Balance at 1 April 2016		19,908	92	20,000
Profit for the financial year		-	5,511	5,511
Other comprehensive income		-	3,966	3,966
Total comprehensive income for the year			9,477	9,477
Dividends paid	19	-	(8,859)	(8,859)
Balance at 31 March 2017		19,908	710	20,618
Profit for the financial year		-	**16,437**	**16,437**
Other comprehensive income		-	**338**	**338**
Total comprehensive income for the year			**16,775**	**16,775**
Balance at 31 March 2018		**19,908**	**17,485**	**37,393**

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. 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. 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 requirements in respect of:
   (i) paragraph 79(a)(iv) of IAS 1;
   (ii) paragraph 73(e) of IAS 16 Property, plant and equipment;
   (iii) paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

d) The following paragraphs of IAS 1, 'Presentation of financial statements':
   – 10(d), 16, 38, 40, 111 and 134-136
e) IAS 7, 'Statement of cash flows'
f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
g) Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation)
h) The requirements in 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.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Provision of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs, labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

Contract accounting balances

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).

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 and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

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%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade receivables

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

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 profit or loss.

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 profit or loss.

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. Accounts payable 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.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities

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

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

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

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

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

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.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the 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.

Notes to the financial statements *(continued)*

4 Revenue

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

	2018 £000 Principal activity	2017 £000 Principal activity
By area of activity:		
Rendering of services	**105,191**	108,144
	105,191	108,144

All the revenue in the year ending 31 March 2018 and year ending 31 March 2017 originated in the United Kingdom.

5 Operating profit

Operating profit is stated after charging/(crediting):

	2018 £000	2017 £000
Depreciation of property, plant and equipment	**1,168**	1,287
Amortisation of intangible assets	**290**	250
Inventory charged	**10,873**	10,082
Operating lease charges – Land and Buildings	**736**	912
Operating lease charges – Other	**824**	936
Foreign exchange loss/(gain)	**27**	(58)
Audit fees payable to the Company's auditors	**40**	33

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.

Notes to the financial statements *(continued)*

6 Finance income and costs

	2018 £000	2017 £000
Finance income:		
Foreign exchange	236	65
Loan interest receivable from group undertakings	737	491
	973	556
Finance expenses:		
Bank Interest	(150)	(85)
Foreign exchange	(263)	(7)
	(413)	(92)

7 Staff costs

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

	2018 Number	2017 Number
By activity:		
Operations	670	768
Management and administration	27	34
	697	802

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	26,667	30,197
Social security costs	2,745	3,629
Other pension costs	1,924	2,879
	31,336	36,705

Included in other pension costs are £568,000 (2017: £574,000) in respect of the defined benefit schemes and £1,356,000 (2017: £1,528,000) 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.

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:

	2018	2017
The remuneration of the directors which was paid by the Company was as follows:	£000	£000
Emoluments (including benefits in-kind)	416	249
Defined contribution pension scheme	20	9
	436	258

Retirement benefits are accruing to two directors (2017: one) under the defined contribution pension scheme.

Except for two (2017: one) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2018	2017
	£000	£000
Emoluments (excluding pension contributions)	234	147
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	14	7

Notes to the financial statements *(continued)*

9 Income tax

Tax expense / (credit) included in income statement

	2018 £000	2017 £000
Current tax:		
UK Corporation tax on profits for the year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	122	(171)
Adjustment in respect of prior years	68	13
Impact of change in UK tax rate	(3)	14
Total deferred tax charge/(credit) (note 17)	187	(144)
Tax on profit	187	(144)

Tax expense / (income) included in other comprehensive income

	2018 £'000	2017 £'000
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	75	962
- Impact of change in UK tax rates	(17)	(120)
Tax expense / (income) included in other comprehensive income	58	842

Tax expense for the year is lower (2017: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

9 Income tax *(continued)*

	2018 £000	2017 £000
Profit before taxation	**16,624**	5,367
Profit multiplied by standard UK corporation tax rate of 19% (2017: 20%)	**3,159**	1,073
Effects of:		
Expenses not deductible for tax	**-**	88
Group relief for nil consideration	**(722)**	
Non-taxable income	**(2,314)**	(1,772)
Unrelieved tax losses	**-**	440
Adjustments in respect of deferred tax for prior years	**67**	13
Impact of change in UK tax rate	**(3)**	14
Total tax (credit)/charge for the year	**187**	(144)

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been re-measured 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
Cost			
At 1 April 2017	1,397	1,221	2,618
Additions	362	-	362
At 31 March 2018	**1,759**	**1,221**	**2,980**
Accumulated amortisation			
At 1 April 2017	279	1,029	1,308
Amortisation	117	173	290
At 31 March 2018	**396**	**1,202**	**1,598**
Net book value			
At 31 March 2018	**1,363**	**19**	**1,382**
At 31 March 2017	1,118	192	1,310

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

11 Property, plant and equipment

	Land	Freehold & Leasehold Buildings	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2017	3,249	5,672	12,518	21,439
Additions	-	42	366	408
Reclassification (i)	-	(946)	-	(946)
Disposal	-	-	(666)	(666)
At 31 March 2018	**3,249**	**4,768**	**12,218**	**20,235**
Accumulated depreciation				
At 1 April 2017	-	2,348	9,158	11,506
Charge for the year	-	475	693	1,168
Reclassification (i)	-	(946)	-	(946)
Disposals	-	-	(355)	(355)
At 31 March 2018	**-**	**1,877**	**9,496**	**11,373**
Net book value				
At 31 March 2018	**3,249**	**2,891**	**2,722**	**8,862**
At 31 March 2017	3,249	3,324	3,360	9,933

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

	2018	2017
	£000	£000
Long leasehold	**2,170**	2,344
Net book value	**2,170**	2,344

i. £946k: Previously acquired items were included in the accounts at gross value, however we have re-evaluated the classifications and decided that carrying the assets at NBV is more appropriate.

Notes to the financial statements *(continued)*

12 Investments

	2018 Shares in group undertakings £000	2017 Shares in group undertakings £000
Cost		
At 1 April:	66,353	66,353
Carrying amount at 31 March	**66,353**	66,353

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

Details of investment are outlined in note 23.

13 Inventories

	2018 £000	2017 £000
Finished goods and goods for resale	**1,546**	2,512
	1,546	2,512

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 £383,723 (2017: £429,000).

14 Trade and other receivables

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade receivables	**7,047**	8,870
Amounts due from customers for contract work	**4,731**	3,947
Amounts owed by group undertakings	**41,007**	28,014
Other receivables, prepayments and accrued income	**7,713**	7,153
	60,498	47,984

Amounts owed by group undertakings are unsecured and repayable on demand. Loan interest receivable from group undertakings is £412,000 (2017: £491,000). The interest rate on the loan is 2.75%.

Trade receivables are stated after provision for impairment of £395,000 (2017: £nil).

Notes to the financial statements *(continued)*

15 Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year:		
Bank overdraft	-	-
Trade creditors	**9,381**	9,358
Amounts owed to parent and group undertakings	**93,385**	94,341
Other taxation and social security	**2,814**	2,922
UK corporation tax payable	**709**	709
Accruals and deferred income	**12,162**	13,764
	118,451	121,094

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

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 20(a)).

16 Provisions for liabilities

	Dilapidations provision £000	Deferred taxation £000	Total £000
At 1 April 2017	58	455	513
Charged to the income statement	692	186	878
Charged/(credited) to other comprehensive income	-	58	58
At 31 March 2018	**750**	**699**	**1,449**

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:

Deferred tax liabilities/(assets)	Pension (asset)/liability £000	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2016:	**(494)**	**264**	**(13)**	**(243)**
- Charged/(credited) to the income statement	(171)	27	-	(144)
- Charged/(credited) to other comprehensive income	842	-	-	842
At 1 April 2017:	**177**	**291**	**(13)**	**455**
- Charged / (credited) to the income statement	280	(107)	13	186
- Charged / (credited) to other comprehensive income	58	-	-	58
At 31 March 2018:	**515**	**184**	**-**	**699**

18 Share capital

	2018 £000	2017 £000
Allotted and fully paid		
19,908,300 ordinary shares of £1 each (2017: 19,908,300)	19,908	19,908

19 Dividends

Dividends declared and paid were £Nil (2017: £8,859,000), this is equivalent to £nil per share (2017: £0.444). There are no plans for a final dividend. Dividends received were £16,375,520 (2017: £8,859,000).

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 (2017: £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 (2017: £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 2018, the Company had future minimum rentals payable under non-cancellable operating leases as follows:

	2018 Land and buildings £000	**2018 Other £000**	2017 Land and buildings £000	2017 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- Not later than one year	**323**	**328**	225	402
- Later than one year and not later than five years	**585**	**130**	97	286
- Later than five years	**-**	**15**	-	-
	908	**473**	322	688

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.

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 the Babcock Group.

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

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

Transactions entered into and trading balances outstanding at 31 March 2017 are as follows:

Related party	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Cura Classis UK Limited	5,345	-	-	-

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

Notes to the financial statements *(continued)*

22 Pension commitments

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 £1,356,000 (2017: £1,528,000). 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 for approximately 54% of the obligations in respect of pensioners and their spouses. Through a common investment committee they have significantly hedged the interest rate and inflation risk though 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.

Guaranteed minimum pension in the United Kingdom

Prior to 6 April 1997, individuals who contracted out of the UK State Second Pension were entitled to Guaranteed Minimum Pension (GMP). Men accrued GMP at different rates on different terms to women. On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement 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 judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of our pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities for our pension schemes. No allowance has been made for any additional provision which may be required in relation to GMP equalisation in the IAS 19 defined benefit obligation as at Mach 2018 and it is not possible to meaningfully quantify any additional provision pending the outcome of legal proceedings.

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2018 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:

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Major assumptions	2018 %	2017 %	2016 %
Rate of increase in salaries	**2.2**	2.3	2.2
Rate of increase in pension payment	**2.9**	3.0	2.8
Discount rate	**2.6**	2.6	3.5
Inflation	**2.0**	2.1	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2018/19 are £22.9m. The future service rate is 31.1% until 30 September 2018 and then 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 £22.9m 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:

	2018 Years	2017 Years	2016 Years
Life expectancy from age 65 (male age 65)	**22.2**	22.6	22.9
Life expectancy from age 65 (male age 45)	**23.2**	23.7	24.5

The changes to the Group balance sheet at March 2018 and the charges to the Group income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2018 £000	Income statement 2018 £000
Initial assumptions	1,380,628	10,419
Discount rate assumptions increased by 0.5%	(101,800)	(4,500)
Discount rate assumptions decreased by 0.5%	101,400	3,500
Inflation rate assumptions increased by 0.5%	61,000	2,400
Inflation rate assumptions decreased by 0.5%	(56,700)	(2,100)
Total life expectancy increased by half a year	28,000	900
Total life expectancy decreased by half a year	(28,300)	(900)
Salary increase assumptions increased by 0.5%	9,500	600
Salary increase assumptions decreased by 0.5%	(9,800)	(600)

The weighted average duration of cashflows (years) was 15.

22 Pension commitments *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2018 were:

	2018 £'000	2017 £'000
Equities	**310,191**	321,942
Property	**120,844**	96,346
Absolute return and multi strategy funds	**4,833**	4,768
Bonds	**485,697**	445,079
Matching assets	**569,413**	596,325
Active position on longevity swaps	**(50,150)**	(48,451)
Total assets	**1,440,828**	1,416,009
Present market value of liabilities - funded	**(1,380,628)**	(1,371,686)
Pension surplus	**60,200**	44,323

The Babcock Critical Services Limited net pension assets represents 5% of the Babcock International Group PLC Net Pension Surplus.

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

The longevity swaps have been valued, in 2018, 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.

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group Plc	**2018 £000**	2017 £000
Current service cost	**10,253**	8,910
Incurred expenses	**2,232**	2,203
Total included within operating profit	**12,485**	11,113
Net interest (income) / cost	**(1,194)**	663
Total charged to the income statement	**11,291**	11,776

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 £628,000 for service cost and incurred expenses (2017: £542,000), and net interest income of £60,000 (2017: cost of £32,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2018 £000**	2017 £000
Actuarial gain recognised in the SOCI	**42,819**	57,922
Experience loss	**(33,301)**	(205)
Other (losses)/gains	**(439)**	4,015
	9,079	61,732

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £396,000 (2017: gain of £4,808,000).

The equity investments and bonds are valued at bid price.

Reconciliation of fair value of scheme assets in Babcock International Group Plc	**2018 £000**	**2017 £000**
At 1 April	**1,416,009**	1,181,486
Interest cost	**36,252**	40,782
Employee contributions	**404**	304
Employer contributions	**18,090**	18,751
Benefits paid	**(76,476)**	(70,210)
Actuarial gain	**46,549**	244,896
At 31 March	**1,440,828**	1,416,009

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities in Babcock International Group plc	2018 £000	2017 £000
At 1 April	**1,371,687**	1,205,869
Service cost	**10,253**	8,910
Incurred expenses	**2,232**	2,203
Interest on liabilities	**35,058**	41,445
Employee contributions	**404**	304
Actuarial loss / (gain) – demographics	**11,172**	(29,948)
Actuarial (gain) / loss – financial	**(7,003)**	212,909
Experience losses	**33,301**	205
Benefits paid	**(76,476)**	(70,210)
At 31 March	**1,380,628**	1,371,687

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 £3,027,000 (2017: asset of £2,161,000).

23 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Direct %	Ultimate%
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%

23 Subsidiary, associate and Joint Venture undertakings *(continued)*

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 England

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