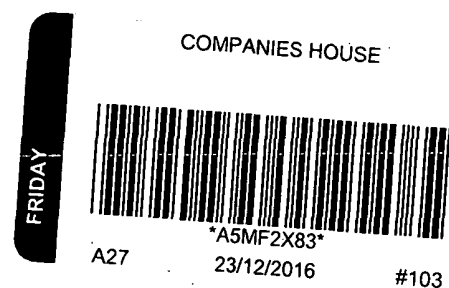

Airwork Limited

Annual Report
For the year ended 31 March 2016

Company Registered Number:
00322249



Airwork Limited

Directors and advisors

N J W Borrett
N Misell
R A Hardy
R D Stoate
I S Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Oceana House
39-49 Commercial Road
Southampton
SO15 1GA

Strategic report for the year ended 31 March 2016

The directors present their strategic report on the Company for the year ended 31 March 2016.

Principal activities

The principal activity of the Company is the provision of technical support predominantly in the field of military aircraft maintenance and repair.

Review of the business

	2016	2015
	£000	£000
Revenue	7,956	6,950
Profit for the financial year	1,248	333

The Company's principal business continues to be the supply of manpower under a subcontract arrangement to the Company's subsidiary company, Airwork Technical Services and Partners LLC, in connection with the Royal Air Force Oman contract. The contract was renewed for a five year term with effect from 1 January 2016.

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

During the year the Company has adopted FRS 101. The impact of this change is set out in note 21.

Principal risks and uncertainties

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

The key risks and uncertainties affecting the Company are considered to be related to the political and regulatory environment. 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 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The directors are confident about the future trading prospects of the Company in light of the historic relationship with the Royal Air Force of Oman and additional emerging opportunities in the Middle East.

Strategic report for the year ended 31 March 2016 *(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 Babcock International, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 & 42 to 45 of the Group's report, which does not form part of this report.

Financial risk management

Information on the Financial Risk Management of the Company can be found in the Directors' report.

On behalf of the board



N Misell

Director

19 December 2016

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Results

The Company's results for the year are set out in the income statement on page 11 showing a profit for the financial year after tax of £1,248,000 (2015: £333,000). At 31 March 2016 the Company had net assets of £15,606,000 (2015: £14,476,000).

Dividends

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

Future developments

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

Financial risk management

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

Price risk

The Company is exposed to price risk as a result of its 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.

Airwork Limited

Directors' report (*continued*)

Financial risk management (*continued*)

Interest rate cash flow risk

The Company has interest-bearing assets. The interest-bearing assets are cash balances which 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.

Foreign exchange risk

The Company is exposed principally to fluctuations in the exchange rates between pound sterling and the Oman Rial. This risk is managed in conjunction with the Group treasury function.

Directors

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

R D Stoaie	
N Misell	Appointed 1 April 2016
N J W Borrett	Appointed 1 December 2015
R A Hardy	Appointed 1 December 2015
I S Urquhart	Appointed 1 December 2015
J R Davies	Resigned 1 December 2015
K Cornfield	Resigned 1 April 2016
R H Taylor	Resigned 13 July 2016

Safety policy

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

Research and development

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

Environment

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

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

Overseas Branch

The company has a branch in Oman. Its registered office is PO box 248, Muscat, Postal code 113, Sultanate of Oman and it represents the Oman operations of Airwork Limited.

Directors' report *(continued)*

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Airwork Limited**Directors' report** *(continued)***Directors' protection**

Babcock International Group PLC also 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.

Disclosure of information to auditors

Each director, as at the date the directors' report is approved, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

On behalf of the board



N Misell

Director

19 December 2016

Independent auditors' report to the members of Airwork Limited

Report on the financial statements

Our opinion

In our opinion, Airwork Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 March 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Airwork Limited (continued)

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

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 and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent auditors' report to the members of Airwork Limited (continued)

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



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

21 December 2016

Airwork Limited

Income Statement

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Revenue	4	7,956	6,950
Cost of sales		(6,059)	(6,225)
Gross profit		1,897	725
Administration expenses		(521)	(402)
Operating profit	5	1,376	323
Income from shares in Group undertakings	9	51	119
Profit on ordinary activities before interest and taxation		1,427	442
Finance income		1	1
Other finance income / (costs) - pensions	18	4	(4)
Profit on ordinary activities before income tax		1,432	439
Income tax expense	8	(184)	(106)
Profit for the year		1,248	333

All of the above results derive from continuing operations

Airwork Limited

Statement of Comprehensive Income for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Profit for the financial year		1,248	333
Other comprehensive (expense) / income: <i>Items that will not be subsequently reclassified to income statement:</i>			
(Loss) / gain on remeasurement of net defined benefit obligation	18	(146)	158
Tax on net defined benefit obligation	8	28	(31)
Other comprehensive (expense) / income for the year		(118)	127
Total comprehensive income for the year		1,130	460

Airwork Limited

Balance Sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
Non-current assets			
Investments	9	230	230
Gross pension assets	18	-	78
		230	308
Current assets			
Inventories	10	8	40
Trade and other receivables - amounts falling due within one year	11	15,803	15,155
Cash and cash equivalents		994	1,257
		16,805	16,452
Trade and other payables - amounts falling due within one year	12	1,368	1,326
Net current assets		15,437	15,126
Total assets less current liabilities		15,667	15,434
Provisions	13	6	958
Gross pension liabilities	18	55	-
Net assets		15,606	14,476
Equity			
Called up share capital	15	20	20
Retained earnings		15,586	14,456
Total shareholders' funds		15,606	14,476

The notes on pages 15-36 form an integral part of these financial statements.

The financial statements on pages 11 to 36 were approved by the board of directors and signed on its behalf by:


N Misell

Director

19 December 2016

Airwork Limited**Statement of changes in equity**
for the year ended 31 March 2016

	Called up share capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2014	20	13,996	14,016
Profit for the financial year	-	333	333
Other comprehensive income	-	127	127
Balance as at 31 March 2015	20	14,456	14,476
Profit for the financial year	-	1,248	1,248
Other comprehensive expense	-	(118)	(118)
Balance as at 31 March 2016	20	15,586	15,606

Notes to the financial statements
(forming part of the financial statements)

1 General information

Airwork Limited is a private company which is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 21.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2016) in these financial statements:

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

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in pounds sterling which is the functional 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 Defence & Security Holdings LLP and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

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

- i) 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
- ii) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- iii) IAS 7, 'Statement of cash flows'
- iv) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- v) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- vi) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- vii) IFRS 7 financial instruments: disclosures.
- viii) 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).
- ix) Paragraphs 130(f) (ii), 130(f) (iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36, 'Impairment of assets (disclosures when the recoverable amount is fair value less costs of the disposal, assumptions involved in estimating recoverable amounts of cash generating unit containing goodwill or intangible assets with indefinite useful lives and management's approach to determining these amounts).

Going concern

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

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:

Sale 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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.

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 over/under 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.

Trade and other receivables

Trade and other 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.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade and other payables

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

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Dividend income

Dividend income is recognised when the right to receive payment is established.

Investments

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

Inventories

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

Taxation

a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the reporting 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 reporting 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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

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 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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Provisions

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.

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

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

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

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

a) Defined benefit pension 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 18 for the disclosures of the defined benefit pension scheme.

b) Deferred tax

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

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

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

c) Contract provisions

The Company recognises provisions based upon the probable outflow or resources that will be required to settle the obligation. Provisions are calculated using the best reliable estimates available to management at the signing date.

Airwork Limited

Notes to the financial statements *(continued)*

4 Revenue

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

	2016 £000	2015 £000
By geographical area:		
UK	2,270	1,614
Middle East	5,686	5,336
Total	<u>7,956</u>	<u>6,950</u>

5 Operating profit

Operating profit is stated after charging/(crediting):

	2016 £000	2015 £000
Staff costs (note 6)	5,205	4,915
Foreign exchange losses/(gains)	59	(141)

Fees payable for the statutory audit of the financial statements have been borne by the Company's fellow subsidiary Babcock Aerospace Limited.

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 accounts are required to comply with the statutory disclosure requirement.

Notes to the financial statements (continued)

6 Staff costs

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

	2016 Number	2015 Number
By Activity		
Operational and technical	165	155
Management and administration	30	29
	195	184

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and Salaries	5,153	4,873
Social Security costs	13	8
Other pension costs (note 18)	39	34
Total	5,205	4,915

Included in other pension costs are £39,000 (2015: £34,000) in respect of the defined benefit schemes. The defined contribution scheme costs in respect of the year were £400 (2015 £200).

7 Directors' remuneration

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.

Airwork Limited

Notes to the financial statements (continued)

8 Income tax

Tax expense included in income statement	Note	2016 £000	2015 £000
Current tax:			
UK corporation tax on profits for the year		-	100
Overseas tax		20	37
Current tax charge for the year		20	137
Deferred tax:			
Origination and reversal of timing differences		161	(33)
Adjustment in respect of prior years		1	-
Impact of change in UK tax rate		2	2
Total deferred tax charge/(income)	14	164	(31)
Tax on profit on ordinary activities		184	106
Tax (income)/expense included in other comprehensive income		2016 £000	2015 £000
Deferred tax:			
Origination and reversal of temporary differences		(29)	33
Impact of change in rates		1	(2)
Total tax (income)/expense included in other comprehensive income		(28)	31

Notes to the financial statements (continued)

8 Income tax (continued)

The tax assessed for the year is lower (2015: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before taxation	1,432	439
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	286	92
Effects of:		
Double tax relief	(41)	-
Other	-	2
Group relief claimed for nil consideration	(71)	-
Overseas tax	20	37
Non-taxable income	(10)	(25)
Tax charge for the financial year	184	106

Factors affecting current and future tax charges

In the 2015 Budget, it was announced that the UK corporation tax will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate expected to apply on reversal.

Notes to the financial statements *(continued)*

9 Investments

	Shares in group undertakings £000	Shares in joint ventures £000	Total £000
Cost			
At 1 April 2014	210	20	230
Additions	-	-	-
At 31 March 2015	210	20	230
At 1 April 2015	210	20	230
Additions	-	-	-
At 31 March 2016	210	20	230

On 15 September 2010, proprietary know-how, not capitalised in the financial statements of the Company in accordance with FRS 10 'Goodwill and Intangible Assets', was transferred to Babcock Integration LLP in exchange for an interest in that partnership. This was in order to facilitate the integration of the Babcock and VT Groups. The partnership interest has been recognised at a cost of £nil given that the know-how transferred was not recognised in the financial statements of the Company prior to the transfer. A royalty is payable at the rate of 1.5% of non-Group turnover. The charge for the year is £35,000 (2015: £24,000).

Airwork Limited is an equal partner with Vinnell Corp in a joint venture Airwork Vinnell, which undertook certain military tasks for the USAF in Oman and Bahrain and whose principal place of business was Seeb Airport, Oman. Its sole contract was terminated in July 2000.

The aggregate investment in all associated undertakings and joint ventures under the equity method of valuation was £21,000 (2015: £21,000).

In 2016 the Company received a dividend of £51,000 (2015: £119,000) from Airwork Technical Services and Partners LLC.

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

Details of the shares in group undertakings are included in note 19.

Airwork Limited

Notes to the financial statements (continued)

10 Inventories

	2016 £000	2015 £000
Finished goods and goods for resale	8	40
	<u>8</u>	<u>40</u>

11 Trade and other receivables

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade receivables	1,205	270
Amounts owed by Group undertakings	14,000	14,000
Amounts owed by related parties	483	463
Other receivables	27	225
Deferred tax (Note 14)	27	164
Other taxation	38	25
Prepayments and accrued income	23	8
	<u>15,803</u>	<u>15,155</u>

Amounts owed by group undertakings are unsecured and repayable within one year. They accrue nil interest. There is one major loan (2015: one) to a group company:

- £14,000,000 (2015: £14,000,000) is repayable on demand, with no interest charge.

The receivables are stated after provisions for impairment of £56,000 (2015: £111,000).

All financial assets of the Company are carried at amortised cost.

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

	2016 £000	2015 £000
Amounts falling due within one year		
Trade payables	43	15
Amounts owed to Group undertakings	71	59
Amounts owed to related parties	64	62
UK corporation tax payable	663	658
Other taxation and social security	10	7
Other payables	18	16
Accruals and deferred income	499	509
	<u>1,368</u>	<u>1,326</u>

Notes to the financial statements (continued)

12 Trade and other payables – amounts falling due within one year (continued)

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

All financial liabilities of the Company are carried at amortised cost.

13 Provisions

	Redundancy provision £000	Contract provision £000	Total £000
At 1 April 2015	952	6	958
Released during the year	(952)	-	(952)
At 31 March 2016	-	6	6

Redundancy provision

During the year the Company released the provision in relation to its terminal liability on completion of the RAFO manpower contract.

Contract provisions

Contract provisions are based on the assessment of future costs and claims with reference to past experience. They are expected to be utilised when the contract expires.

14 Deferred taxation

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

	2016 £000	2015 £000
Accelerated capital allowances	13	18
Other short term timing differences	4	162
Tax on defined benefit scheme (liability) / asset	10	(16)
	27	164

Notes to the financial statements (continued)**14 Deferred taxation (continued)**

The movement on the deferred tax asset is as follows:

Deferred tax assets	Accelerated capital allowances	Other	Total
At 1 April 2014:	22	142	164
- (Charged)/Credited to the income statement	(4)	35	31
- Charged to other comprehensive income	-	(31)	(31)
At 31 March 2015:	18	146	164
- (Charged) to the income statement	(4)	(160)	(164)
- Credited to other comprehensive income	-	28	28
At 31 March 2016:	13	14	27

15 Called up share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
20,000 (2015 : 20,000) ordinary shares of £1 each	20	20
	<u>20</u>	<u>20</u>

16 Guarantees and financial commitments

At the year end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain group companies. In addition, the Company at the reporting date had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15.0 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.

Notes to the financial statements (continued)

17 Related party disclosures

During the year the Company has entered into transactions in the ordinary course of business with Airwork Technical Services and Partners LLC, an Omani-registered company in which the Company owns a 51% shareholding in the form of ordinary shares. In addition, the Company continues to hold a balance with Airwork Advanced Group Co WLL, a dormant company registered in Abu Dhabi, in which the Company owns a 49% shareholding.

See note 7 for disclosure of directors' remuneration.

Transactions entered into and trading balances outstanding at 31 March 2016 are as follows:

	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
Related party	£'000	£'000	£'000	£'000
Airwork Technical Services and Partners LLC	5,686	-	483	64

Transactions entered into and trading balances outstanding at 31 March 2015 are as follows:

	Sales to related party	Purchases from related party	Amounts owed by related party	Amounts owed to related party
Related party	£'000	£'000	£'000	£'000
Airwork Technical Services and Partners LLC	5,336	-	463	-
Airwork Advanced Group Co WLL	-	-	-	62

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.

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

Notes to the financial statements *(continued)***18 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. 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 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 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.

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2016 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 1 April 2013. The major assumptions used for the IAS 19 valuation were:

	2016 %	2015 %	2014 %
Major assumptions			
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	2.9	2.9	3.0
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

Notes to the financial statements (continued)

18 Pension commitments (continued)

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. 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 £18.7m is £6.6m 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:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	22.9	23.0	22.8
Life expectancy from age 65 (male age 45)	24.5	24.7	24.3

The changes to the Babcock International Group PLC balance sheet at 31 March 2016 and the changes to the Babcock International Group PLC income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement 2017 £000
Initial assumptions	1,205,800	12,900
Discount rate assumptions increased by 0.5%	(87,800)	(4,400)
Discount rate assumptions decreased by 0.5%	87,800	3,500
Inflation rate assumptions increased by 0.5%	49,900	2,500
Inflation rate assumptions decreased by 0.5%	(46,300)	(2,200)
Total life expectancy increased by half a year	19,100	800
Total life expectancy decreased by half a year	(19,100)	(700)
Salary increase assumptions increased by 0.5%	9,400	700
Salary increase assumptions decreased by 0.5%	(9,400)	(600)

The weighted average duration of cashflows (years) was 16.

Notes to the financial statements (continued)

18 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 reporting date of 31 March 2016 were:

Fair value of plan of assets	2016	2015
	£'000	£'000
Equities	285,320	264,900
Property	95,937	33,567
Absolute return and multi strategy funds	1,588	7,374
Bonds	426,204	402,307
Matching assets	423,129	584,784
Active position on longevity swaps	(50,692)	(39,947)
Total assets	1,181,486	1,252,985
Present market value of liabilities - funded	(1,205,869)	(1,219,048)
Gross pension (deficit) / surplus	(24,383)	33,937

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

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

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Airwork Limited

Notes to the financial statements (continued)

18 Pension commitments (continued)

Analysis of amount charged to the income statement in Babcock International Group PLC	2016 £000	2015 £000
Current service cost	11,712	11,301
Incurred expenses	2,258	1,922
Total included within operating profit	13,970	13,223
Net interest (income) / cost	(1,311)	1,783
Total charged to the income statement	12,659	15,006

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 £43,000 for service and administration cost (2015: £30,000), and net interest income (2015: cost) of £4,000 (2015: £4,000).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCl")	2016 £000	2015 £000
Actuarial gain / (loss) recognised in the SOCl	21,071	(156,484)
Experience (losses)/ gains	(80,237)	247,122
Other losses	(9,387)	(22,707)
	(68,553)	67,931

The actuarial loss (2015: gain) recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £146,000 (2015: £158,000).

The equity investments and bonds are valued at bid price.

	2016 £000	2015 £000
Reconciliation of present value of scheme assets in Babcock International Group PLC		
At 1 April	1,292,931	1,050,052
Interest cost	43,539	46,825
Employee contributions	411	515
Employer contributions	22,892	29,296
Benefits paid	(62,146)	(57,067)
Actuarial (loss) / gain	(65,450)	223,310
At 31 March	1,232,177	1,292,931

Airwork Limited

Notes to the financial statements

18 Pension commitments (*continued*)

	2016 £000	2015 £000
Reconciliation of present value of scheme liabilities		
At 1 April	1,219,048	1,081,839
Service cost	11,712	11,301
Incurred expenses	2,258	1,922
Interest on liabilities	40,870	47,866
Employee contributions	411	515
Actuarial (gain) / loss – demographics	(15,784)	162,558
Actuarial (gain) – financial	(5,287)	(6,074)
Experience losses / (gain)	14,787	(23,812)
Benefits paid	(62,146)	(57,067)
At 31 March	1,205,869	1,219,048

The deficit (2015: 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 £55,000 (2015: £78,000).

The defined contribution scheme costs in respect of the year were £400 (2015 £200).

19 Related undertakings

All related undertakings for the Company are as listed below:

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings			
Airwork Technical Services and Partners LLC	Oman	Maintenance of aircraft	Ordinary - 51%
PO box 248, Muscat, Postal code 113, Sultanate of Oman			
Participating interests			
Airwork Advanced Group Co WLL	UAE	Dormant	Ordinary - 49%
1104, 11th Floor, Al Masood Tower, Sheikh Hamdan Bin Mohammed Street, Al Markaziya, Abu Dhabi			

Notes to the financial statements *(continued)*

20 Ultimate parent undertaking

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

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

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

21 Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under UK GAAP were for the year ended 31 March 2015. The effective date of transition to FRS 101 was 1 April 2014. Set out below are descriptions of the various implementation options applied by the Company in preparing the financial statements for the year end 31 March 2016, as well as reconciliations from "old UK GAAP" to FRS 101 for both total comprehensive income for the year ended 31 March 2015 and total equity as at 1 April 2014 and 31 March 2015.

Profit for the financial year		2015
		£000
UK GAAP - as previously reported		308
Defined benefit pension scheme	<i>a</i>	31
Total adjustment to profit before tax for the financial year		31
Deferred tax impact of adjustments:		
Defined benefit pension scheme	<i>b</i>	(6)
Total adjustment to tax expense		(6)
Total adjustment to profit for the financial year		25
FRS 101		333

Airwork Limited

Notes to the financial statements (continued)

21 Transition to FRS 101 (continued)

Total comprehensive income		2015 £000
UK GAAP - as previously reported		333
Defined benefit pension scheme	a	158
Deferred tax impact of adjustments		
- Defined benefit pension scheme	b	(31)
FRS 101		<u>460</u>

a Defined benefit pension liability

The Company is a member of a group defined benefit pension plan that shares risks between entities under common control. Under previous UK GAAP this scheme was accounted for as a defined contribution scheme. Under FRS 101 the Company recognises its share of the scheme's net surplus/deficit together with its share of the service costs and interest charge in the income statement. The Company's share is calculated based on the proportion of active members of the scheme that it employs.

At 1 April 2014 and 31 March 2015, the net deficit/surplus of the plan was £110,000 (deficit) and £78,000 (surplus) respectively. The charge recognised in the income statement for the year ended 31 March 2015 was £34,000. The difference between the contributions paid and the defined benefit accounting recorded in profit and loss was £31,000 (lower expense under FRS 101). The amount recognised in other comprehensive income for the year ended 31 March 2015 was £158,000 and relates to the actuarial movement during the year.

b Deferred tax

FRS 101 defines deferred tax in relation to temporary differences between carrying values and their related tax bases, rather than timing differences in the income statement and therefore adjustments are required to recognise items for which no deferred tax was recognised under UK GAAP. Deferred tax has been provided on the actuarial gain on the defined benefit pension scheme at 31 March 2015 noted in a above.

Total equity		31 March 2015 £'000	31 March 2014 £'000
UK GAAP - as previously reported		14,412	14,104
Defined benefit pension scheme	a	78	(105)
Deferred tax impact of adjustments			
- Defined benefit pension scheme	b	(14)	17
FRS 101		<u>14,476</u>	<u>14,016</u>

