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**Airwork Limited**  
**Annual Report**  
**For the year ended 31 March 2017**  
**Company Registered Number:**  
**00322249**

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**Directors and advisors**

N J W Borrett  
D M Jones  
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  
Savannah House  
3 Ocean Way  
Southampton  
SO14 3TJ

**Strategic report**

The directors present their strategic report on the Company for the year ended 31 March 2017.

**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**

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Revenue	<b>7,820</b>	<b>7,956</b>
Profit for the financial year	<b>575</b>	<b>1,248</b>

The Company's principle 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. The profit for the financial year in 2016 includes the release of a restructuring provision of £800,000 that was originally charged in a prior period, but no longer required.

The directors consider the financial position of the company to be satisfactory.

**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 Babcock International Group (the "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 68 to 79 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 (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 30 to 37 and 44 to 47 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



I Urquhart

**Director**

19 December 2017

## **Directors' report**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2017.

## **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 £575,000 (2016: £1,248,000). At 31 March 2017 the Company had net assets of £16,394,000 (2016: £15,606,000).

## **Dividends**

No dividends were paid during the current or comparative year. No final dividend for the year ended 31 March 2017 has been paid or is proposed by the directors (2016: £nil).

## **Future developments**

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

## **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk, 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.

**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 Stoate	
N Misell	Resigned 1 April 2017
N J W Borrett	
R A Hardy	Resigned 1 April 2017
D M Jones	Appointed 1 April 2017
I S Urquhart	
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.

**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 LLP continues and the appropriate training is arranged. It is the policy of the LLP 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.

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

### **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 LLP as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

### **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.

### **Statement of directors' responsibilities**

The directors are responsible for preparing the Annual 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 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK 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 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.

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.

**Directors' report (continued)**

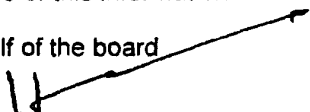
**Directors' protection**

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

A handwritten signature in black ink, appearing to be 'I Urquhart', with a long horizontal stroke extending to the right.

I Urquhart

**Director**

19 December 2017



**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 2017 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 2017;
- 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.

**Opinion on other matter 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

19 December 2017

**Airwork Limited**

**Income Statement**  
*for the year ended 31 March 2017*

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Revenue</b>	<b>4</b>	<b>7,820</b>	<b>7,956</b>
Cost of sales		<b>(6,708)</b>	<b>(6,059)</b>
<b>Gross profit</b>		<b>1,112</b>	<b>1,897</b>
Administrative expenses		<b>(629)</b>	<b>(521)</b>
<b>Operating profit</b>	<b>5</b>	<b>483</b>	<b>1,376</b>
Income from shares in Group undertakings	<b>9</b>	<b>114</b>	<b>51</b>
<b>Profit before interest and taxation</b>		<b>597</b>	<b>1,427</b>
Finance income		<b>1</b>	<b>1</b>
Other finance (costs)/income	<b>18</b>	<b>(3)</b>	<b>4</b>
<b>Profit before income tax</b>		<b>595</b>	<b>1,432</b>
Income tax expense	<b>8</b>	<b>(20)</b>	<b>(184)</b>
<b>Profit for the financial year</b>		<b>575</b>	<b>1,248</b>

All of the above results derive from continuing operations

**Statement of Comprehensive Income**  
for the year ended 31 March 2017

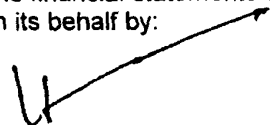
	Note	2017 £000	2016 £000
<b>Profit for the financial year</b>		<b>575</b>	<b>1,248</b>
<b>Other comprehensive income/(expense):</b>			
Gain/(loss) on remeasurement of net defined benefit obligation	18	258	(146)
Tax on net defined benefit obligation	8	(45)	28
<b>Other comprehensive income/(expense) for the financial year</b>		<b>213</b>	<b>(118)</b>
<b>Total comprehensive income for the financial year</b>		<b>788</b>	<b>1,130</b>

**Balance Sheet**  
as at 31 March 2017

	Note	2017 £000	2016 £000
<b>Non-current assets</b>			
Investments	9	230	230
Gross pension assets	18	175	-
		<u>405</u>	<u>230</u>
<b>Current assets</b>			
Inventories	10	11	8
Trade and other receivables	11	14,868	15,803
Cash and cash equivalents		<u>2,713</u>	<u>994</u>
		17,592	16,805
Trade and other payables	12	(1,597)	(1,368)
<b>Net current assets</b>		<u>15,995</u>	<u>15,437</u>
<b>Total assets less current liabilities</b>		<b>16,400</b>	<b>15,667</b>
Provisions for liabilities	13	(6)	(6)
Gross pension liabilities	18	-	(55)
<b>Net assets</b>		<u>16,394</u>	<u>15,606</u>
<b>Equity</b>			
Called up share capital	15	20	20
Retained earnings		<u>16,374</u>	<u>15,586</u>
<b>Total shareholders' funds</b>		<u>16,394</u>	<u>15,606</u>

The notes on pages 15-35 form an integral part of these financial statements.

The financial statements on pages 11 to 35 were approved by the board of directors and signed on its behalf by:

  
I Urquhart

Director

19 December 2017

**Statement of changes in equity**  
*for the year ended 31 March 2017*

	<b>Called up share capital £000</b>	<b>Retained earnings £000</b>	<b>Total shareholders' funds £000</b>
Balance as at 1 April 2015	20	14,456	14,476
Profit for the financial year	-	1,248	1,248
Other comprehensive expense	-	(118)	(118)
Total comprehensive income for the year	-	1,130	1,130
<b>Balance as at 31 March 2016</b>	<b>20</b>	<b>15,586</b>	<b>15,606</b>
Profit for the financial year	-	575	575
Other comprehensive income	-	213	213
Total comprehensive income for the year	-	788	788
<b>Balance as at 31 March 2017</b>	<b>20</b>	<b>16,374</b>	<b>16,394</b>

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

**1 General information**

Airwork Limited is a private company limited by shares 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.

**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 and in accordance with the Companies Act 2006, as applicable to companies using FRS101. The financial statements are prepared in pounds sterling which is the functional and presentational 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 area involving a higher degree of judgement or complexity, or area where assumptions and estimates are significant to the financial statements is 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 requirement 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; and
  - paragraph 73(e) of IAS 16 Property, plant and equipment;
- 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.

**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.

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

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

**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 tax*

Deferred 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 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 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 tax asset is realised or the deferred tax liability is settled.

Deferred 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.

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

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

**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.

**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.

**c) Contract provisions**

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

**Notes to the financial statements (continued)****4 Revenue**

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

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
By geographical area:		
UK	<b>658</b>	<b>2,270</b>
Middle East	<b>7,162</b>	<b>5,686</b>
Total	<b>7,820</b>	<b>7,956</b>

**5 Operating profit**

Operating profit is stated after charging/(crediting):

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Staff costs (note 6)	<b>6,155</b>	<b>5,209</b>
Foreign exchange (gains)/losses	<b>(88)</b>	<b>59</b>

Fees payable for the statutory audit of the financial statements in 2017 of £7,300 (2016: £7,300) 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 financial statements 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:

	2017 Number	2016 Number
<b>By Activity</b>		
Operational and technical	204	194
Management and administration	1	1
	<b>205</b>	<b>195</b>

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and Salaries	6,077	5,153
Social Security costs	34	13
Other pension costs (note 18)	44	43
<b>Total</b>	<b>6,155</b>	<b>5,209</b>

Included in other pension costs are £44,000 (2016: £43,000) in respect of the defined benefit schemes. The defined contribution scheme costs in respect of the year were £100 (2016: £400).

**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.

Notes to the financial statements (*continued*)**8 Income tax expense**

<b>Tax expense included in income statement</b>	<i>Note</i>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Current tax:</b>			
UK corporation tax on profits for the year		-	-
Overseas tax		59	20
<b>Current tax charge for the year</b>		<b>59</b>	<b>20</b>
<b>Deferred tax:</b>			
Origination and reversal of timing differences		(50)	161
Adjustment in respect of prior years		4	1
Impact of change in UK tax rate		7	2
<b>Total deferred tax (income)/charge</b>	<b>14</b>	<b>(39)</b>	<b>164</b>
<b>Income tax expense</b>		<b>20</b>	<b>184</b>
<b>Tax expense/(income) included in other comprehensive income</b>		<b>2017 £000</b>	<b>2016 £000</b>
<b>Deferred tax:</b>			
Tax impact of actuarial gains/(losses) on pension liability		51	(29)
Impact of change in UK tax rates		(6)	1
<b>Total tax expense/(income) included in other comprehensive income</b>		<b>45</b>	<b>(28)</b>



**Notes to the financial statements (continued)****8 Income tax expense (continued)**

The tax assessed for the year is lower (2016: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2017 of 20% (2016: 20%). The differences are explained below:

	2017 £000	2016 £000
<b>Profit before income tax</b>	<b>595</b>	<b>1,432</b>
Profit before income tax multiplied by standard UK corporation tax rate of 20% (2016: 20%)	119	286
Effects of:		
Group relief claimed for nil consideration	(87)	(71)
Overseas tax	59	20
Non-taxable income	(23)	(10)
Double tax relief	(59)	(41)
Adjustment in respect of deferred tax for prior years	4	-
Impact of change in UK tax rate	7	-
<b>Total tax charge for the year</b>	<b>20</b>	<b>184</b>

**Factors affecting current and future tax charges**

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal.

## Notes to the financial statements (continued)

## 9 Investments

	Shares in group undertakings £000	Shares in joint ventures £000	Total £000
<b>Cost and net book value</b>			
At 1 April 2015	210	20	230
Additions	-	-	-
<b>At 31 March 2016</b>	<b>210</b>	<b>20</b>	<b>230</b>
At 1 April 2016	210	20	230
Additions	-	-	-
<b>At 31 March 2017</b>	<b>210</b>	<b>20</b>	<b>230</b>

The shares in group undertakings relate to the Company's investment in Airwork Technical Services and Partners LLC (see note 19). The shares in joint ventures relate to the Company's investment in Airwork Advanced Group Co WLL (see note 19).

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 this 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 £10,000 (2016: £35,000).

The aggregate investment in all associated undertakings and joint ventures under the equity method of valuation was £20,000 (2016: £20,000).

In 2017 the Company received a dividend of £114,000 (2016: £51,000) 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.

**Notes to the financial statements (continued)****10 Inventories**

	2017	2016
	£000	£000
Finished goods and goods for resale	11	8
	<u>11</u>	<u>8</u>

**11 Trade and other receivables**

	2017	2016
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade receivables	90	1,205
Amounts owed by Group undertakings	14,000	14,000
Amounts owed by related parties	647	483
Other receivables	18	27
Deferred tax (Note 14)	21	27
Other taxation	87	38
Prepayments and accrued income	5	23
	<u>14,868</u>	<u>15,803</u>

Amounts owed by Group undertakings are unsecured and repayable within one year. They accrue nil interest. There is one major loan (2016: one) to a Group company.

Amounts owed by related parties are unsecured, interest free and repayable on demand.

Trade receivables are stated after provisions for impairment of £7,000 (2016: £56,000).

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

**12 Trade and other payables**

	2017	2016
	£000	£000
Trade payables	36	43
Amounts owed to Group undertakings	145	71
Amounts owed to related parties	74	64
Corporation tax payable	699	663
Other taxation and social security	14	10
Other payables	38	18
Accruals and deferred income	591	499
	<u>1,597</u>	<u>1,368</u>

**Notes to the financial statements (continued)****12 Trade and other payables (continued)**

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

Amounts owed by related parties are unsecured, interest free and repayable on demand.

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

**13 Provisions for liabilities**

	<b>Contract provision £000</b>	<b>Total £000</b>
At 1 April 2016	6	6
Released during the year	-	-
At 31 March 2017	<u>6</u>	<u>6</u>

**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:

	<b>2017 £000</b>	<b>2016 £000</b>
Accelerated capital allowances	11	13
Other short term timing differences	40	4
Tax on defined benefit scheme (liability) / asset	(30)	10
	<u>21</u>	<u>27</u>

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

The movement on the deferred tax asset is as follows:

<b>Deferred tax assets</b>	<b>Accelerated capital allowances £000</b>	<b>Other £000</b>	<b>Total £000</b>
At 31 March 2016:	13	14	27
- (Charged)/Credited to the income statement	(3)	42	39
- Charged to other comprehensive income	-	(45)	(45)
At 31 March 2017:	10	11	21

**15 Called up Share capital**

	<b>2017 £000</b>	<b>2016 £000</b>
<b>Allotted and fully paid</b>		
20,000 (2016 : 20,000) ordinary shares of £1 each	20	20
	<b>20</b>	<b>20</b>

**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 (2016: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2016: £nil).

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.

See note 7 for disclosure of directors' remuneration.

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

	<b>Sales to related party</b>	<b>Purchases from related party</b>	<b>Amounts owed by related party</b>	<b>Amounts owed to related party</b>
<b>Related party</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Airwork Technical Services and Partners LLC</b>	<b>7,162</b>	<b>-</b>	<b>647</b>	<b>74</b>

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

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

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 19R Employee Benefits ("IAS 19R"). 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 19R valuation has been updated at 31 March 2017 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19R. The date of the last full actuarial valuation was 31 March 2013. The major assumptions used for the IAS 19R valuation were:

	2017 %	2016 %	2015 %
<b>Major assumptions</b>			
Rate of increase in salaries	2.3	2.2	2.2
Rate of increase in pension payment	3.0	2.9	2.9
Discount rate	2.6	3.5	3.4
Inflation	2.1	1.9	1.9

**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 2017/18 are £18.5m. The future service rate is 32.0%. 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 £18.5m is £3.0m 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:

	<b>2017 Years</b>	<b>2016 Years</b>	<b>2015 Years</b>
Life expectancy from age 65 (male age 65)	<b>22.6</b>	<b>22.9</b>	<b>23.0</b>
Life expectancy from age 65 (male age 45)	<b>23.7</b>	<b>24.5</b>	<b>24.7</b>

The changes to the Babcock International Group PLC balance sheet at 31 March 2017 and the changes to the Babcock International Group PLC income statement for the year to March 2018, if the assumptions were sensitised by the amounts below, would be:

	<b>Defined benefit obligations 2017 £000</b>	<b>Income statement 2018 £000</b>
Initial assumptions	<b>1,371,686</b>	<b>11,776</b>
Discount rate assumptions increased by 0.5%	<b>(104,900)</b>	<b>(4,800)</b>
Discount rate assumptions decreased by 0.5%	<b>104,900</b>	<b>3,700</b>
Inflation rate assumptions increased by 0.5%	<b>62,400</b>	<b>2,600</b>
Inflation rate assumptions decreased by 0.5%	<b>(57,800)</b>	<b>(2,300)</b>
Total life expectancy increased by half a year	<b>28,200</b>	<b>1,000</b>
Total life expectancy decreased by half a year	<b>(28,200)</b>	<b>(900)</b>
Salary increase assumptions increased by 0.5%	<b>10,400</b>	<b>700</b>
Salary increase assumptions decreased by 0.5%	<b>(10,400)</b>	<b>(600)</b>

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



**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 balance sheet date of 31 March 2017 were:

<b>Fair value of plan of assets</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Equities	<b>321,942</b>	285,320
Property	<b>96,346</b>	95,937
Absolute return and multi strategy funds	<b>4,768</b>	1,588
Bonds	<b>445,079</b>	426,204
Matching assets	<b>596,325</b>	423,129
Active position on longevity swaps	<b>(48,451)</b>	(50,692)
<b>Total assets</b>	<b>1,416,009</b>	1,181,486
Present market value of liabilities - funded	<b>(1,371,686)</b>	(1,205,859)
<b>Gross pension surplus / (deficit)</b>	<b>44,323</b>	(24,383)

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 2017, in line with assumptions that are consistent with the requirements of IFRS 13.

**Notes to the financial statements (continued)****18 Pension commitments (continued)**

<b>Analysis of amount charged to the income statement in Babcock International Group PLC</b>	<b>2017 £000</b>	<b>2016 £000</b>
Current service cost	8,910	11,712
Incurred expenses	2,203	2,258
Total included within operating profit	11,113	13,970
Net interest cost/(income)	663	(1,311)
<b>Total charged to the income statement</b>	<b>11,776</b>	<b>12,659</b>

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £44,000 for service and administration cost (2016: £43,000), and net interest cost of £3,000 (2016: £4,000 income).

<b>Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCl")</b>	<b>2017 £000</b>	<b>2016 £000</b>
Actuarial gain recognised in the SOCl	57,922	21,071
Experience losses	(205)	(80,237)
Other gains / (losses)	4,015	(9,387)
	<b>61,732</b>	<b>(68,553)</b>

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £258,000 (2016: £146,000 loss).

The equity investments and bonds are valued at bid price.

	<b>2017 £000</b>	<b>2016 £000</b>
<b>Reconciliation of present value of scheme assets in Babcock International Group PLC</b>		
At 1 April	1,232,177	1,292,931
Interest cost	42,556	43,539
Employee contributions	304	411
Employer contributions	18,751	22,892
Benefits paid	(70,210)	(62,146)
Actuarial gain / (loss)	240,882	(65,450)
At 31 March	<b>1,464,460</b>	<b>1,232,177</b>

## Notes to the financial statements

## 18 Pension commitments (continued)

	2017 £000	2016 £000
<b>Reconciliation of present value of scheme liabilities</b>		
At 1 April	1,205,869	1,219,048
Service cost	8,910	11,712
Incurred expenses	2,203	2,258
Interest on liabilities	41,445	40,870
Employee contributions	304	411
Actuarial gain – demographics	(29,948)	(15,784)
Actuarial loss / (gain) – financial	212,909	(5,287)
Experience losses	205	14,787
Benefits paid	(70,210)	(62,146)
At 31 March	1,371,687	1,205,869

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 £175,000 (2016: £55,000 deficit).

The defined contribution scheme costs in respect of the year were £100 (2016: £400).

## 19 Related undertakings

All related undertakings for the Company are as listed below:

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

**Notes to the financial statements (continued)****19 Related undertakings (continued)**

	<b>Country of incorporation</b>	<b>Principal activity</b>	<b>Interest held</b>
<b>Participating interests</b>			
Babcock Integration LLP	England	Holding Company	0.03%

33 Wigmore Street  
London  
W1U 1QX

**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