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**Airwork Limited**

**Annual Report**  
**For the year ended 31 March 2018**

**Company Registered Number:**  
**00322249**



**Directors and advisors**

NJW Borrett  
R Hardy  
DM Jones  
IS 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 2018.

**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**

|                               | 2018<br>£000 | 2017<br>£000 |
|-------------------------------|--------------|--------------|
| Revenue                       | 8,578        | 7,820        |
| Profit for the financial year | 1,225        | 575          |

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 increase in profit for the year reflects the release of a contract accrual of £150,000 combined with a higher level of trading activity.

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 46 to 53 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



DM Jones

**Director**

21 December 2018

## **Directors' report**

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

## **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 £1,225,000 (2017: £575,000). At 31 March 2018 the Company had net assets of £17,671,000 (2017: £16,394,000).

## **Dividends**

No dividends were paid during the current or comparative year. No final dividend for the year ended 31 March 2018 has been paid or is proposed by the directors (2017: £nil).

## **Future developments**

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

## **Financial risk management**

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. Each department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

All treasury transactions are carried out only with prime rated counter-parties. Financial risk is managed in accordance with Group policies and procedures which are discussed on pages 26 to 29 and Note 2 on the annual report of Babcock International Group PLC, which does not form part of this report.

### *Price risk*

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

### *Credit risk*

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

**Directors' report (continued)**

**Financial risk management (continued)**

*Liquidity risk*

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

*Interest rate cash flow risk*

The Company has 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:

NJW Borrett  
RA Hardy  
DM Jones  
NG Misell  
RD Stoaie  
IS Urquhart

Resigned 1 April 2017  
Appointed 1 April 2017  
Resigned 1 April 2017  
Resigned 31 March 2018

**Employment of disabled persons**

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

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

**Safety policy**

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

**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 in respect of the financial statements**

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

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

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

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

**Directors' report (continued)**

**Statement of directors' responsibilities in respect of the financial statements (continued)**

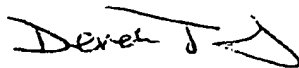
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies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

**DIRECTORS' CONFIRMATIONS**

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

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



DM Jones

Director

21 December 2018



## **Independent auditors' report to the members of Airwork Limited**

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

#### **Opinion**

In our opinion, Airwork Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2018; the Income Statement and Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### *Independence*

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

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

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

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

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

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

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

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

*Strategic Report and Directors' Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

*Responsibilities of the directors for the financial statements*

As explained more fully in the Statement of Directors' responsibilities set out on pages 6 to 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

*Use of this report*

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

**Other required reporting**

**Companies Act 2016 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



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

21 December 2018

**Income Statement**  
for the year ended 31 March 2018

|  | Note | 2018<br>£000 | 2017<br>£000 |
|--|------|--------------|--------------|
| <b>Revenue</b>                             | 4    | 8,578        | 7,820        |
| Cost of sales                              |      | (7,241)      | (6,942)      |
| <b>Gross profit</b>                        |      | 1,337        | 878          |
| Administrative expenses                    |      | (228)        | (395)        |
| <b>Operating profit</b>                    | 5    | 1,109        | 483          |
| Income from shares in Group undertakings   | 9    | 239          | 114          |
| <b>Profit before interest and taxation</b> |      | 1,348        | 597          |
| Finance income                             |      | -            | 1            |
| Other finance income/(costs)               | 18   | 5            | (3)          |
| <b>Profit before income tax</b>            |      | 1,353        | 595          |
| Income tax expense                         | 8    | (128)        | (20)         |
| <b>Profit for the financial year</b>       |      | 1,225        | 575          |

All of the above results derive from continuing operations

£234,000 of costs have been reclassified from administrative expenses to cost of sales in the comparative year to be consistent with the current year.

**Statement of Comprehensive Income**

*for the year ended 31 March 2018*

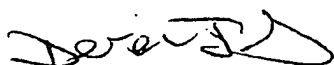
|   | <i>Note</i> | <b>2018</b>  | 2017 |
|---|-------------|--------------|------|
|   |             | <b>£000</b>  | £000 |
| <b>Profit for the financial year</b>  |             | <b>1,225</b> | 575  |
| <b>Other comprehensive income:</b>  |             |              |      |
| <i>Items that will not be subsequently reclassified to the income statement</i> |             |              |      |
| Gain/(loss) on remeasurement of net defined benefit obligation                  | 18          | <b>62</b>    | 258  |
| Tax on net defined benefit obligation   | 8           | <b>(10)</b>  | (45) |
| TOTAL Other comprehensive income for the year, net of tax                       |             | <b>52</b>    | 213  |
| <b>Total comprehensive income for the year, net of tax</b>                      |             | <b>1,277</b> | 788  |

**Balance Sheet**  
as at 31 March 2018

|  | Note | 2018<br>£000  | 2017<br>£000  |
|--|------|---------------|---------------|
| <b>Non-current assets</b>                    |      |               |               |
| Investments                                  | 9    | 230           | 230           |
| Gross pension assets                         | 18   | 259           | 175           |
|  |      | <u>489</u>    | <u>405</u>    |
| <b>Current assets</b>                        |      |               |               |
| Inventories                                  | 10   | 53            | 11            |
| Trade and other receivables                  | 11   | 15,148        | 14,868        |
| Cash and cash equivalents                    |      | 3,282         | 2,713         |
|  |      | <u>18,483</u> | <u>17,592</u> |
| Trade and other payables                     | 12   | (1,295)       | (1,597)       |
| <b>Net current assets</b>                    |      | <u>17,188</u> | <u>15,995</u> |
| <b>Total assets less current liabilities</b> |      | <b>17,677</b> | <b>16,400</b> |
| Provisions for liabilities                   | 13   | (6)           | (6)           |
| <b>Net assets</b>                            |      | <u>17,671</u> | <u>16,394</u> |
| <b>Equity</b>                                |      |               |               |
| Called up share capital                      | 15   | 20            | 20            |
| Retained earnings                            |      | 17,651        | 16,374        |
| <b>Total shareholders' funds</b>             |      | <u>17,671</u> | <u>16,394</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:



DM Jones  
Director

21 December 2018

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

|   | <b>Called up<br/>share<br/>capital<br/>£000</b> | <b>Retained<br/>earnings<br/>£000</b> | <b>Total<br/>shareholders'<br/>funds<br/>£000</b> |
|---|---|---------------------------------------|---|
| Balance as at 1 April 2016              | 20  | 15,586                                | 15,606  |
| 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>                                     |
| Profit for the financial year           | -   | 1,225                                 | 1,225   |
| Other comprehensive income              | -   | 52                                    | 52  |
| Total comprehensive income for the year | -   | 1,277                                 | 1,277   |
| <b>Balance as at 31 March 2018</b>      | <b>20</b>                                       | <b>17,651</b>                         | <b>17,671</b>                                     |

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

**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 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 requirement to prepare consolidated financial statements.

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

- a) IFRS 7, 'Financial Instruments: Disclosures'.
- b) Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosures of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - Paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - Paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - Paragraph 118(e) of IAS38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- d) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- e) IAS 7, 'Statement of cash flows'
- f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation



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

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

**Basis of preparation (continued)**

- h) The requirements of IAS 24, 'Related party transactions' to disclose related party transactions entered into between two or more members of a group
- i) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-based Payment'.
- j) 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 units 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:

*a) 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.

*b) Sale of services*

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

*c) Long-term service contracts*

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

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

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

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

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

**Basis of preparation (continued)**

**Investments**

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

**Inventories**

Inventories are valued at the lower of costs and net realisable value. Cost is determined of 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 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 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 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.

**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.

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

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

**Pensions costs and other post-retirement benefits (continued)**

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.

**Trade and other receivables**

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

**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.

**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.

**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.

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

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

**Provisions (continued)**

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.

***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.

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

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

|                       | <b>2018</b>  | <b>2017</b>  |
|-----------------------|--------------|--------------|
|                       | <b>£000</b>  | <b>£000</b>  |
| By geographical area: |              |              |
| UK                    | <b>679</b>   | <b>658</b>   |
| Middle East           | <b>7,899</b> | <b>7,162</b> |
| Total                 | <b>8,578</b> | <b>7,820</b> |

**5 Operating profit**

Operating profit is stated after charging/(crediting):

|                                 | <b>2018</b>  | <b>2017</b>  |
|---------------------------------|--------------|--------------|
|                                 | <b>£000</b>  | <b>£000</b>  |
| Staff costs (note 6)            | <b>6,719</b> | <b>6,155</b> |
| Foreign exchange (gains)/losses | <b>105</b>   | <b>(88)</b>  |
| Release of contract accrual     | <b>(150)</b> | <b>-</b>     |

Fees payable for the statutory audit of the financial statements in 2018 of £ 6,875 (2017: £7,300) have been borne by the Company's fellow subsidiary Babcock International Limited (2017: 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:

|                               | 2018<br>Number | 2017<br>Number |
|-------------------------------|----------------|----------------|
| <b>By Activity</b>            |                |                |
| Operational and technical     | 220            | 204            |
| Management and administration | 1              | 1              |
|                               | <u>221</u>     | <u>205</u>     |

Their aggregate remuneration comprised:

|                               | 2018<br>£000 | 2017<br>£000 |
|-------------------------------|--------------|--------------|
| Wages and Salaries            | 6,599        | 6,077        |
| Social Security costs         | 66           | 34           |
| Other pension costs (note 18) | 54           | 44           |
| <b>Total</b>                  | <u>6,719</u> | <u>6,155</u> |

Included in other pension costs are £54,000 (2017: £44,000) in respect of the defined benefit schemes. The defined contribution scheme costs in respect of the year were £ nil (2017: £100)

**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>                 | <b>Note</b> | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> |
|---|-------------|----------------------|----------------------|
| <b>Current tax:</b>   |             |                      |                      |
| UK corporation tax on profits for the year                      |             | -                    | -                    |
| Overseas tax  |             | 132                  | 59                   |
| <b>Current tax charge for the year</b>                          |             | <b>132</b>           | <b>59</b>            |
| <b>Deferred tax:</b>  |             |                      |                      |
| Origination and reversal of timing differences                  |             | (8)                  | (50)                 |
| Adjustment in respect of prior years                            |             | 3                    | 4                    |
| Impact of change in UK tax rate                                 |             | 1                    | 7                    |
| <b>Total deferred tax income</b>                                | <b>14</b>   | <b>(4)</b>           | <b>(39)</b>          |
| <b>Income tax expense</b>                                       |             | <b>128</b>           | <b>20</b>            |
| <b>Tax expense included in other comprehensive income</b>       |             | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> |
| <b>Deferred tax:</b>  |             |                      |                      |
| Tax impact of actuarial gains on pension asset                  |             | 12                   | 51                   |
| Impact of change in UK tax rates                                |             | (2)                  | (6)                  |
| <b>Total tax expense included in other comprehensive income</b> |             | <b>10</b>            | <b>45</b>            |

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

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

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| <b>Profit before income tax</b>  | <b>1,353</b> | <b>595</b>   |
| Profit before income tax multiplied by standard UK corporation tax rate of 19% (2017: 20%) | 257          | 119          |
| Effects of:  |              |              |
| Group relief claimed for nil consideration   | (59)         | (87)         |
| Overseas tax   | 132          | 59           |
| Non-taxable income   | (74)         | (23)         |
| Double tax relief  | (132)        | (59)         |
| Adjustment in respect of deferred tax for prior years                                      | 3            | 4            |
| Impact of change in UK tax rate  | 1            | 7            |
| <b>Total tax charge for the year</b>   | <b>128</b>   | <b>20</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 re-measured at 17% as this is the tax rate that will apply on reversal.



**Notes to the financial statements (continued)****9 Investments**

|                                | Shares in<br>group<br>undertakings<br>£000 | Shares in<br>joint<br>ventures<br>£000 | Total<br>£000 |
|--------------------------------|--|--|---------------|
| <b>Cost and net book value</b> |  |  |               |
| At 1 April 2016                | 210  | 20                                     | 230           |
| Additions                      | -  | -                                      | -             |
| <b>At 31 March 2017</b>        | <b>210</b>                                 | <b>20</b>                              | <b>230</b>    |
| At 1 April 2017                | 210  | 20                                     | 230           |
| Additions                      | -  | -                                      | -             |
| <b>At 31 March 2018</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 (2017: £10,000).

The aggregate investment in all associated undertakings and joint ventures under the equity method of valuation was £20,000 (2017: £20,000).

In 2018 the Company received a dividend of £239,000 (2017: £114,000) 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**

|                                     | <b>2018</b> | <b>2017</b> |
|-------------------------------------|-------------|-------------|
|                                     | <b>£000</b> | <b>£000</b> |
| Finished goods and goods for resale | <b>53</b>   | <b>11</b>   |
|                                     | <b>53</b>   | <b>11</b>   |

**11 Trade and other receivables**

|   | <b>2018</b>   | <b>2017</b>   |
|---|---------------|---------------|
|   | <b>£000</b>   | <b>£000</b>   |
| <b>Amounts falling due within one year:</b> |               |               |
| Trade receivables                           | <b>205</b>    | <b>90</b>     |
| Amounts owed by Group undertakings          | <b>14,000</b> | <b>14,000</b> |
| Amounts owed by related parties             | <b>655</b>    | <b>647</b>    |
| Other receivables                           | <b>30</b>     | <b>18</b>     |
| Deferred tax (Note 14)                      | <b>15</b>     | <b>21</b>     |
| Other taxation                              | <b>126</b>    | <b>87</b>     |
| Prepayments and accrued income              | <b>117</b>    | <b>5</b>      |
|   | <b>15,148</b> | <b>14,868</b> |

Amounts owed by Group undertakings are unsecured and repayable within one year. They accrue nil interest.

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

Trade receivables are stated after provisions for impairment of £7,000 (2017: £7,000).

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

**12 Trade and other payables**

|                                    | <b>2018</b>  | <b>2017</b>  |
|------------------------------------|--------------|--------------|
|                                    | <b>£000</b>  | <b>£000</b>  |
| Trade payables                     | <b>134</b>   | <b>36</b>    |
| Amounts owed to Group undertakings | <b>8</b>     | <b>145</b>   |
| Amounts owed to related parties    | <b>74</b>    | <b>74</b>    |
| Corporation tax payable            | <b>783</b>   | <b>699</b>   |
| Other taxation and social security | <b>13</b>    | <b>14</b>    |
| Other payables                     | <b>17</b>    | <b>38</b>    |
| Accruals and deferred income       | <b>266</b>   | <b>591</b>   |
|                                    | <b>1,295</b> | <b>1,597</b> |

**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<br/>provision<br/>£000</b> | <b>Total<br/>£000</b> |
|--------------------------|--|-----------------------|
| At 1 April 2017          | 6                                      | 6                     |
| Released during the year | -                                      | -                     |
| At 31 March 2018         | <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**

| <b>Deferred tax assets</b>                   | <b>Accelerated<br/>capital<br/>allowances<br/>£000</b> | <b>Retirement<br/>benefit<br/>obligations<br/>£000</b> | <b>Other<br/>£000</b> | <b>Total<br/>£000</b> |
|--|--|--|-----------------------|-----------------------|
| At 1 April 2017                              | 11   | (30)   | 40                    | 21                    |
| - (Credited)/Charged to the income statement | (2)  | (4)  | 10                    | 4                     |
| - Charged to other comprehensive income      | -  | (10)   | -                     | (10)                  |
| At 31 March 2018                             | <u>9</u>   | <u>(44)</u>  | <u>50</u>             | <u>15</u>             |

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

**15 Called up share capital**

|   | <b>2018</b> | <b>2017</b> |
|---|-------------|-------------|
|   | <b>£000</b> | <b>£000</b> |
| <b>Allotted and fully paid</b>                    |             |             |
| 20,000 (2017 : 20,000) ordinary shares of £1 each | <b>20</b>   | <b>20</b>   |
|   | <b>20</b>   | <b>20</b>   |

**16 Guarantees and financial commitments**

**Contingent liabilities**

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2017: £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 (2017: £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.

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

|  | <b>Sales to<br/>related<br/>party</b> | <b>Purchases<br/>from<br/>related<br/>party</b> | <b>Amounts<br/>owed by<br/>related<br/>party</b> | <b>Amounts<br/>owed to<br/>related<br/>party</b> |
|--|---------------------------------------|---|--|--|
| <b>Related party</b>                                   | <b>£'000</b>                          | <b>£'000</b>                                    | <b>£'000</b>                                     | <b>£'000</b>                                     |
| <b>Airwork Technical Services and<br/>Partners LLC</b> | <b>7,899</b>                          | <b>-</b>  | <b>655</b>                                       | <b>-</b>   |
| <b>Airwork Advanced Group Co<br/>WLL</b>               | <b>-</b>                              | <b>-</b>  | <b>-</b>   | <b>74</b>  |

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

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

On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. The issues determined by the judgement arise in relation to many other defined benefit pension schemes. We are working with the trustees of the pension schemes, and our actuarial and legal advisers, to understand the extent to which the judgement crystallises additional liabilities for our pension schemes. Any adjustment necessary will be recognised in the financial statements for the year-ending 31 March 2019.

## Notes to the financial statements (continued)

## 18 Pension commitments (continued)

## BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2018 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2016. The major assumptions used for the IAS 19 valuation were:

|                                     | 31 March<br>2018<br>% | 31 March<br>2017<br>% | 31 March<br>2016<br>% |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| <b>Major assumptions</b>            |                       |                       |                       |
| Rate of increase in salaries        | 2.2                   | 2.3                   | 2.2                   |
| Rate of increase in pension payment | 2.9                   | 3.0                   | 2.9                   |
| Discount rate                       | 2.6                   | 2.6                   | 3.5                   |
| Inflation                           | 2.0                   | 2.1                   | 1.9                   |

The expected total employer contributions to be made by participating employers to the scheme in 2017/18 are £22.9m. The future service rate is 31.1% until 30 September 2018 and then 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £22.9m is £8.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

|   | 31 March<br>2018<br>Years | 31 March<br>2017<br>Years | 31 March<br>2016<br>Years |
|---|---------------------------|---------------------------|---------------------------|
| Life expectancy from age 65 (male age 65) | 22.2                      | 22.6                      | 22.9                      |
| Life expectancy from age 65 (male age 45) | 23.2                      | 23.7                      | 24.5                      |

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

The changes to the Babcock International Group PLC balance sheet at 31 March 2018 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:

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

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

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

|  | 31 March<br>2018<br>£000 | 31 March<br>2017<br>£000 |
|--|--------------------------|--------------------------|
| <b>Fair value of plan of assets</b>          |                          |                          |
| Equities                                     | 310,191                  | 321,942                  |
| Property                                     | 120,844                  | 96,346                   |
| Absolute return and multi strategy funds     | 4,833                    | 4,768                    |
| Bonds  | 485,697                  | 445,079                  |
| Matching assets                              | 569,413                  | 596,325                  |
| Active position on longevity swaps           | (50,150)                 | (48,451)                 |
| <b>Total assets</b>                          | <b>1,440,828</b>         | <b>1,416,009</b>         |
| Present market value of liabilities - funded | (1,380,628)              | (1,371,686)              |
| <b>Gross pension surplus / (deficit)</b>     | <b>60,200</b>            | <b>44,323</b>            |



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

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

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

The longevity swaps have been valued, in 2018, in line with assumptions that are consistent with the requirements of IFRS 13.

|  | <b>31 March<br/>2018<br/>£000</b> | <b>31 March<br/>2017<br/>£000</b> |
|--|-----------------------------------|-----------------------------------|
| <b>Analysis of amount charged to the income statement in Babcock International Group PLC</b> |                                   |                                   |
| Current service cost   | 10,253                            | 8,910                             |
| Incurred expenses  | 2,232                             | 2,203                             |
| Total included within operating profit   | 12,485                            | 11,113                            |
| Net interest (income)/cost   | (1,194)                           | 663                               |
| <b>Total charged to the income statement</b>   | <b>11,291</b>                     | <b>11,776</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 £54,000 for service cost and incurred expenses (2017: £44,000), and net finance gain of £5,000 (2017: cost of £3,000).

## Notes to the financial statements (continued)

## 18 Pension commitments (continued)

|  | 31 March<br>2018<br>£000 | 31 March<br>2017<br>£000 |
|--|--------------------------|--------------------------|
| <b>Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")</b> |                          |                          |
| Actuarial (loss)gain recognised in the SOCI  | 42,819                   | 57,922                   |
| Experience gains/(losses)  | (33,301)                 | (205)                    |
| Other (losses)/gains   | (439)                    | 4,015                    |
|  | <b>9,079</b>             | <b>61,732</b>            |

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £62,000 (2017: £258,000 gain).

The equity investments and bonds are valued at bid price.

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

The 2017 reconciliation analysis has been reclassified to align with current year presentation. There has been no impact on the balance sheet as at 31 March 2017 or the income statement for the year ended 31 March 2017.

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

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

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £259,000 (2017: £175,000).

**19 Related undertakings**

All related undertakings for the Company are as listed below:

|  | <b>Country of<br/>incorporation</b> | <b>Principal activity</b>  | <b>Class and<br/>percentage of<br/>shares held</b> |
|--|-------------------------------------|----------------------------|--|
| <b><i>Subsidiary undertakings</i></b>  |                                     |                            |  |
| Airwork Technical Services and<br>Partners LLC   | Oman                                | Maintenance of<br>aircraft | Ordinary - 51%                                     |
| PO Box 248, Muscat, Postal Code<br>113, Sultanate of Oman  |                                     |                            |  |
| <b><i>Participating interests</i></b>  |                                     |                            |  |
| Airwork Advanced Group Co WLL  | UAE                                 | Dormant                    | Ordinary - 49%                                     |
| 1104, 11 <sup>th</sup> Floor,<br>Al Masaoood Tower, Sheikh Hamdan<br>Bin Mohammed Street, Al<br>Markaziya, Abu Dhabi |                                     |                            |  |
|  | <b>Country of<br/>incorporation</b> | <b>Principal activity</b>  | <b>Interest held</b>                               |
| <b><i>Participating interests</i></b>  |                                     |                            |  |
| Babcock Integration LLP  | England                             | Holding Company            | 0.03%  |
| 33 Wigmore Street<br>London<br>W1U 1QX   |                                     |                            |  |

**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