Babcock Marine Training Limited

Annual Report

For the year ended 31 March 2020

Company registration number:

03086376

Directors and advisors

Current directors
N Borrett
M Graves
D Jones
K Stewart
I Urquhart

Company secretary
N Borrett

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 for the year ended 31 March 2020

The directors present their Strategic report on the Company for the year ended 31 March 2020.

Principal activities

The principal activities of the Company are the provision of training and support services in the UK defence sector and also to international customers.

Review of the business

	2020	2019
	£000	£000
Revenue	**54,021**	55,471
Profit for the financial year	**4,818**	10,390

The Company has continued to provide training & support services to the Royal Navy and other parties in the year through a number of contracts.

A significant contract supporting the Royal Navy in its delivery of trained engineers and personnel to the fleet continues to deliver and evolve. Positive customer feedback continues and this is reflected in increased volume of training requests. A further extension to April 2021 was secured during the year.

The contract in support to the Royal Saudi Naval Forces, contracted through BAE systems is progressing well with additional margin recognised in the year associated with improved contract performance. The reduction in revenue & profit year on year was largely as a result of an improved trading position on the Astute class submarine training contract recognised in the prior year. This contract continues to show stable and sustainable delivery, and no further trading adjustments have been necessary. This has been partially offset by improved performance of the Royal Navy and Royal Saudi Naval Forces contracts in the current year as described above.

The Company's share of the Babcock International Group Pension Scheme surplus has increased to £17.0m from £5.2m as a result of an overall higher scheme surplus and the Company's allocation increasing as a result of having a higher proportion of active scheme members in 2020 compared to 2019.

As 2019/20 drew to a close, the impact of COVID-19 measures came into force. The company has seen minimal impact caused by Covid-19 for financial year ending March 20 and it continues to remain in a healthy position for the foreseeable future. Working closely with the MOD, the Company continues to implement government guidelines and review operational support priorities.

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 Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

Strategic report for the year ended 31 March 2020 *(continued)*

Principal risks and uncertainties *(continued)*

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 and including the expected impact of COVID-19 is provided on pages 80 to 92 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The Company has continued tender activity for the replacement and evolution of the training & support services contract to the Royal Navy and Royal Marines, known as 'Project Selborne' due to commence in April 2021.

We remain confident that the Company will continue to benefit from the strength of its relationships with its existing customers.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

If the business is unsuccessful in winning 'Project Selborne' it would continue to operate but at a reduced capacity.

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 Marine Training Limited, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 68 to 71 of the Group's report, which does not form part of this report.

S172 Statement and stakeholder engagement

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders, including customers, employees, suppliers and the wider community. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group annual report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees. During the year, the Directors additionally considered the ongoing tender activity for the replacement and evolution of the training and support services contract to the Royal Navy and Royal Marines, known as 'Project Selborne' due to commence in April 2021.

On behalf of the board

Mark Graves

M. Graves

Director
6 July 2020

Directors' report for the year ended 31 March 2020

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

Dividends

No interim dividend payment has been made for this financial year *(2019: £10,200,000)*. No final dividend for the year ended 31 March 2020 is proposed by the directors *(2019: £nil)*.

Future developments

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

Financial risk management

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

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

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

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

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

Interest rate cash flow risk
The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors' report for the year ended 31 March 2020 (continued)

Financial risk management *(continued)*

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 65 to 67 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

Directors

N Borrett
D Jones
M Graves
K Stewart
I Urquhart

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Directors' report for the year ended 31 March 2020 *(continued)*

Environment

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

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

Statement of directors' responsibilities in respect of the financial statements

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

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

In preparing these financial statements, the directors are required to:

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

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

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Directors' report for the year ended 31 March 2020 *(continued)*

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.

Statement of engagement with customers, employees, suppliers and others in a business relationship with the Company

The Directors have regard to the need to foster the Company's business relationship with customers, employees, suppliers and others, and the effect of that regard, including on principal decisions taken by the Company during the financial year. Please refer to the Company's Section 172(1) statement in the Strategic Report.

Statement of disclosure of information to auditors

Each director, as at the date of this report, 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.

Reappointment of auditors

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

On behalf of the Board

M. Graves

Mark Graves

Director

6 July 2020

Independent auditors' report to the members of Babcock Marine Training Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Marine Training Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 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 2020; the Income Statement, the 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 the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

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

Independent auditors' report to the members of Babcock Marine Training Limited *(continued)*

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 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Christopher Solomides (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
6 July 2020

Income statement
for the year ended 31 March 2020

	Note	2020 £000	2019 £000
Revenue	4	**54,021**	55,471
Cost of sales		**(43,299)**	(37,701)
Gross profit		**10,722**	17,770
Administrative expenses		**(5,539)**	(5,551)
Operating profit	6	**5,183**	12,219
Other finance income	5	**463**	448
Finance costs	5	**(41)**	(1)
Other finance income - pension	21	**199**	159
Profit before income tax		**5,804**	12,825
Income tax expense	9	**(986)**	(2,435)
Profit for the financial year		**4,818**	10,390

All of the above results derive from continuing operations.

Statement of comprehensive income		2020 £000	2019 £000
Profit for the financial year		**4,818**	10,390
Other comprehensive income/(expense)			
Items that will not subsequently be reclassified to the income statement			
Gain / (loss) on remeasurement of net defined benefit obligation	21	**9,507**	(193)
Tax on net defined benefit obligation	9	**(1,910)**	19
Total other comprehensive income/(expense)		**7,597**	(174)
Total comprehensive income for the financial year		**12,415**	10,216

Babcock Marine Training Limited

Balance Sheet
as at 31 March 2020

	Note	2020 £000	Restated 2019 £000
Fixed assets			
Investments	*11*	**50**	50
Right-of-use Assets	*10*	**819**	-
		869	50
Current assets			
Pension scheme surplus	*21*	**16,962**	5,174
Trade and other receivables: amount falling due after more than one year	*12*	**1,783**	2,075
Trade and other receivables: amount falling due within one year	*12*	**85,505**	72,170
Cash and cash equivalents		**6,380**	17,660
		110,630	97,079
Trade and other payables - amounts falling due within one year	*13*	**(45,618)**	(46,150)
Net current assets		**65,012**	50,929
Total assets less current liabilities		**65,881**	50,979
Trade and other payables – amounts falling due after more than one year - lease liabilities	*14*	**(406)**	-
Provisions for liabilities	*15*	**(4,266)**	(2,185)
Net assets		**61,209**	**48,794**
Equity			
Called up share capital	*17*	**500**	500
Retained earnings		**60,709**	48,294
Total shareholders' funds		**61,209**	48,794

The prior period balance sheet has been reclassified to show £2,075,000 of trade and other receivables as being due after more than one year and the pension scheme surplus in current assets rather than fixed assets. There has been no change to total trade and other receivables, total assets less current liabilities or net assets. See note 12.

The notes on pages 14 to 39 are an integral part of these financial statements.

The financial statements on pages 11 to 39 were approved by the board of directors on 6 July 2020 and signed on its behalf by:

M. Graves

Mark Graves
Director

Babcock Marine Training Limited

Statement of changes in equity
for the year ended 31 March 2020

	Note	Called up share capital	Retained earnings	Total Shareholder funds
		£000	£000	£000
Balance as at 1 April 2018		500	48,278	48,778
Profit for the financial year		-	10,390	10,390
Total other comprehensive expense		-	(174)	(174)
Total comprehensive income for the financial year		-	10,216	10,216
Dividends paid	*18*	-	(10,200)	(10,200)
Balance as at 31 March 2019		500	48,294	48,794
Profit for the financial year		-	4,818	4,818
Total other comprehensive income		-	7,597	7,597
Total comprehensive income for the financial year		-	12,415	12,415
Balance as at 31 March 2020		**500**	**60,709**	**61,209**

Notes to the financial statements

1 General information

Babcock Marine Training 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 principal 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, in accordance with the Companies Act 2006, as applicable to companies using FRS 101. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. 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:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) 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)
d) 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;

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

e) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

g) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

h) IAS 7, 'Statement of cash flows'

i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation

k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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.

Adoption of new and revised standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 16, 'Leases' has been adopted in the year (effective 1 January 2019) and replaces IAS 17 as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Under the new standard, the Company has now recognised almost all leases, where the Company is a lessee, on the balance sheet as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

The Company has adopted the simplified transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for all leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. Comparative figures have not been restated for the year ended 31 March 2019.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Adoption of new and revised standards *(continued)*

The following practical expedients have been adopted on transition:
• Single discount rates have been applied to portfolios of leases with similar characteristics
• IFRS 16 has only been applied to contracts that were previously classified as leases
• For leases with onerous lease provisions recognised against them immediately prior to the date of transition, the provisions have been utilised and offset against the right-of-use assets on the date of transition
• Initial direct costs have been excluded from the measurement of right-of-use assets on the date of transition
• The lease term has been determined with the use of hindsight where the contract contains options to extend the lease

Right-of-use asset are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, "Impairment of Assets". Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. The Company's contracts typically do not include significant financing components.

(c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the company's performance as it performs; or
- the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment for work done; or
- the company's performance creates or enhances an asset controlled by the customer.

Most of the Company's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Company's performance as it performs or the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done.

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Company.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue and profit recognition *(continued)*

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made. Any expected loss on a contract is recognised immediately in the income statement.

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in capitalised contract costs and amortised over the life of the contract, provided that the contract is expected to result in future net cash inflows.

(e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(f) Principal versus agent considerations

The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Company controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a contract by contract basis.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

Investments

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

Inventory and work in progress

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

Trade receivables

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Pensions costs and other post-retirement benefits

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

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities which 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 is measured in accordance with the FRS 101 fair value hierarchy using appropriate valuation techniques.

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

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

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

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Lessee Accounting

For lessees there is no longer a distinction between finance or operating leases as all leases are now recognised on the balance sheet. When a lease commences, a lease liability is recognised that is equal to the present value of the minimum lease payments. A right-of-use asset is also recognised and is equal in value to the lease liability. This represents the right to use the leased asset for the full lease term.

Short-term leases and low-value leases are exempt from recognition on the balance sheet, and the payments are instead recognised on a straight-line basis in the income statement in the same way as they would have been under IAS 17. A lease is considered short-term if the total lease length is less than 12 months, and low-value if the underlying asset would cost less than £5,000 to buy new.

Right-of-use assets are depreciated over the total lease term. As the discounting is unwound, interest is charged in the income statement and increases the lease liabilities.
When lease payments are made, the lease liabilities reduce. Therefore both right-of-use assets and lease liabilities have nil value at the end of the lease.

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Lessee Accounting *(continued)*

When lease payments are made, the lease liabilities reduce. Therefore both right-of-use assets and lease liabilities have nil value at the end of the lease.

Lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate where the interest rate implicit in the lease is not available.

Provisions for liabilities

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

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

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

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

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

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

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements and estimates 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. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

Revenue and profit recognition

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms.

Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

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 [21] for the disclosures of the defined benefit pension scheme.

The recognition of an accounting surplus on the Company's defined benefit scheme is a judgement and dependent on the Company being able to recover any surplus in the future through refunds from the plan and having considered the pension scheme rules a surplus is recognised on this basis.

The basis for the allocation of the Company's share of the Babcock International Group Pension Scheme, which is based on the number of active members in each participating company, is also a judgement.

Notes to the financial statements *(continued)*

4 Revenue

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

	2020 £000	2019 £000
By area of activity:		
Sale of goods – transferred at a point in time	**806**	402
Provision of training and support services - transferred over time	**53,215**	55,069
	54,021	55,471

	2020 £000	2019 £000
Destination		
United Kingdom	**51,350**	55,281
Canada	**2,671**	190
	54,021	55,471

Within the Company's order book £145m represents the transaction price allocated to unsatisfied or partially satisfied performance obligations. Management expects that £53m of the transaction price allocated to unsatisfied performance obligations as at 31 March 2020 will be recognised as revenue during the next reporting year. A further £27m of the transaction price allocated to unsatisfied performance obligations is expected to be recognised as revenue in years two to five after 31 March 2020 and £65m after more than five years.

5 Finance income and costs

	2020 £000	2019 £000
Finance income		
Bank interest	**25**	23
Loan interest receivable from group undertakings	**438**	425
	463	448
Finance costs		
Interest on lease liabilities	**(40)**	-
Bank interest on overdrafts	**(1)**	(1)
	(41)	(1)

Notes to the financial statements *(continued)*

6 Operating profit

Operating profit is stated after (crediting) / charging:

		2020	2019
		£000	£000
Depreciation for right of use assets	Note 10	**393**	-
Foreign exchange losses		**(3)**	(6)
Audit fees payable to the Company's auditor		**54**	53

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group accounts are required to comply with the statutory disclosure requirements.

Fees payable for the audits of Flagship Fire Fighting Training Limited £9,500 *(2019: £7,000)* and Babcock Fire Services Limited £9,500 *(2019: £7,000)* have been borne by the Company.

7 Staff costs

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

	2020	2019
	Number	Number
By activity		
Operations	**913**	866
Management and administration	**25**	21
	938	887

Their aggregate remuneration comprised:

	2020	2020
	£000	£000
Wages and salaries	**28,174**	26,960
Social security costs	**3,611**	3,239
Other pension costs (note 21)	**4,181**	4,642
	35,966	34,841

Included in other pension costs are £1,329,000 *(2019: £2,648,000)* in respect of the defined benefit scheme and £2,852,236 *(2019: £1,994,000)* in respect of the defined contribution scheme.

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

Notes to the financial statements *(continued)*

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were £nil *(2019: £nil)*.

During the year no *(2019: no)* directors remunerated by Babcock Marine Training Limited exercised share options under long term incentive plans and no *(2019: no)* directors were entitled to receive share options under long term incentive plans.

No retirement benefits were accruing to directors *(2019: no)* under SIPS money purchase scheme.

No directors *(2019: no)* were remunerated by the company as they were remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

9 Income tax expense

Tax expense included in income statement	**2020**	2019
	£000	£000
Current tax		
UK Corporation tax on profits for the year	**738**	2,407
Current tax charge for the year	**738**	2,407
Deferred tax		
Origination and reversal of temporary differences	**366**	31
Adjustments in respect of prior years	**(72)**	14
Impact of change in UK tax rate	**(46)**	(17)
Total deferred tax charge (note 16)	**248**	28
Tax on profit	**986**	2,435

Notes to the financial statements *(continued)*

9 Income tax expense *(continued)*

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

	2020 £000	2019 £000
Deferred Tax:		
Actuarial gains/(losses) on pension asset	**1,806**	(37)
Impact of change in UK tax rate	**104**	18
Tax expense / (income) included in other comprehensive income	**1,910**	(19)

The tax assessed for the year is lower *(2019: lower)* than the standard effective rate of corporation tax in the UK for the year ended 31 March 2020 of 19% *(2019: 19%)*. The differences are explained below:

	2020 £000	2019 £000
Profit before income tax	**5,804**	12,825
Profit multiplied by standard UK corporation tax rate of 19% *(2019: 19%)*	**1,103**	2,437
Effects of:		
Expenses not deductible for tax purposes	**1**	1
Adjustments in respect of deferred tax for prior years	**(72)**	14
Impact of change in UK tax rate	**(46)**	(17)
Total tax charge for the year	**986**	2,435

In November 2019 the Government announced it intended to cancel the future reduction in corporation tax rate from 19% to 17%. This was subsequently enacted in March 2020. Therefore deferred taxes at the balance sheet date have been measured at a rate of 19% *(2019: 17%)*.

Notes to the financial statements *(continued)*

10 Right of use assets

	Property	Plant and equipment	Total
	£'000	£'000	£'000
Cost			
At 1 April 2019	-	-	-
Transition to IFRS 16	568	123	691
Additions	529	-	529
Terminations	-	(8)	(8)
At 31 March 2020	**1097**	**115**	**1212**
Accumulated depreciation			
At 1 April 2019	-	-	-
Transition to IFRS 16	-	-	-
Charge for the year	(333)	(63)	(396)
Terminations	-	3	3
At 31 March 2020	(333)	(60)	(393)
Net book value			
At 31 March 2020	**764**	**55**	**819**
At 31 March 2019	-	-	-

11 Investments

	2020 Ordinary shares in group undertakings	Total	2019 Ordinary shares in group undertakings	Total
	£000	£000	£000	£000
Cost				
At 1 April 2019 and 31 March 2020	**50**	**50**	50	50
Carrying amount at 1 April 2019 and 31 March 2020	**50**	**50**	50	50

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

12 Trade and other receivables

	2020 £000	Restated 2019 £000
Amounts falling due within one year:		
Trade receivables	**1,243**	2,213
Amounts due from customers for contract work	**5,288**	6,425
Amounts due by group undertakings	**78,296**	63,110
Other receivables	**221**	68
Prepayments and accrued income	**457**	354
	85,505	72,170

	2020 £000	2019 £000
Amounts falling due after more than one year:		
Amounts due from customers for contract work	**1,783**	2,075
	1,783	2,075

The prior year balance sheet has been reclassified to show £2,075,000 of amounts recoverable on contracts as being due after more than one year. There has been no change to total trade and other receivables, total assets less current liabilities or total net assets.

Amounts due by group undertakings are unsecured and repayable on demand. There are four major loans (*2019: three*) to group companies:

- A loan of £7,250,000 (*2019: £7,250,000*) is repayable on demand, the interest rate is the base rate minus 0.125%; the base rate is set at the prevailing 6 month LIBOR rate on each interest payment.
- A loan of £50,000,000 (*2019: £50,000,000*) is repayable on demand, the interest rate is the base rate minus the relevant margin of 0.125%. The base rate commenced at 0.7425% and thereafter is set at the prevailing 6 month LIBOR rate on each interest payment date.
- A loan totalling £4,838,000 (*2019: £4,838,000*) is repayable on demand, with no interest charge.
- A loan totalling £15,300,000 *(2019: £nil)* is repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £nil *(2019: nil)*

	Amounts due for contract work £000	Accrued Income £000	Total £000
1 April 2019	8,500	262	8,762
Transfers from contract assets recognised at the beginning of the year to receivables	(6,425)	(262)	(6,687)
Increase due to work done not transferred from contract assets	4,996	-	4,996
At 31 March 2020	**7,071**	**-**	**7,071**

Notes to the financial statements *(continued)*

12 Trade and other receivables *(continued)*

Ageing of contract assets	2020 £000	2019 £000
Within one year	**5,288**	6,687
In more than one year, but not more than five years	**1,783**	2,075
After 5 years	**-**	-
	7,071	8,762

13 Trade and other payables - amounts falling due within one year

	2020 £000	2019 £000
Amounts falling due within one year:		
Trade payables	**1,182**	1,163
Amounts due to parent and group undertakings	**19,913**	19,437
Taxation and social security	**2,068**	1,795
UK corporation tax payable	**9,372**	8,634
Payments received on account	**10,373**	12,417
Lease liabilities (note 14)	**425**	-
Accruals and deferred income	**2,285**	2,704
	45,618	46,150

All of the group loans, amounts due to parent and group undertakings are unsecured, interest free, and repayable on demand.

UK corporate tax payable represents the aggregate amount of current tax charges, the balance of which is owed to other group undertakings.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 22).

	Contract cost accrual	Payments received on Account	Total
	£000	£000	£000
At 1 April 2019	1,993	12,417	14,410
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(6,486)	(6,486)
Increase due to cash received, excluding amounts recognised as revenue	-	4,442	4,442
Amounts accrued	1,313	-	1,313
Amounts utilised	(1,762)	-	(1,762)
At 31 March 2020	**1,544**	**10,373**	**11,917**

Notes to the financial statements *(continued)*

14 Lease liabilities

The entity leases various offices and other properties under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases. In its calculation of right of use assets (note 10) and lease liabilities, the Company has assumed it will exercise property lease exit options before the end of the full lease term for a number of properties. Included within the below analysis are £0.597 million *(2019: £0.611 million)* of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

Discounted future minimum lease payments are as follows:

	2020	2019
	£'000	£'000
		On transition
Within one year (note 13)	**425**	280
In more than one year, but not more than five years	**406**	410
After five years	**-**	-
Carrying value of liability	**831**	690

The weighted average incremental borrowing rate applied to the lease liabilities at the date of transition was 4.64%

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	Total
	£'000
Operating lease commitments at 31 March 2019	841
Effect of discounting	(53)
Change in assessment of lease term	(98)
IFRS 16 lease liability at 1 April 2019	**690**

Notes to the financial statements *(continued)*

15. Provisions for liabilities

	2020	2019
	£000	£000
Contract provisions	**1,548**	1,625
Deferred Taxation (see note16)	**2,718**	560
	4,266	2,185

	Contract provision
	£000
At 1 April 2019	1,625
Utilised in the year	(77)
At 31 March 2020	**1,548**

Contract provisions

The Contract provision relates to an Annual Compensation Payment liability of £1.5m *(2019: £1.6m)* associated with protected rights of ex-civil servants that were TUPE transferred into Babcock Marine Training Limited and subsequently made redundant. The provision is forecast to be utilised over the next 19 years.

16. Deferred taxation

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

	Accelerated capital allowances	**Defined Benefit Pension**	**Other**	**Total**
	£000	**£000**	**£000**	**£000**
At 1 April 2019:	(52)	1,030	(427)	551
- Charged / (credited) to the income statement	9	(131)	150	28
- Credited directly to other comprehensive income	-	(19)	-	(19)
At 31 March 2019	(43)	880	(277)	560
- Charged / (credited) to the income statement	(30)	434	(156)	248
- Charged to other comprehensive income	-	1,910	-	1,910
At 31 March 2020	**(73)**	**3,224**	**(433)**	**2,718**

Notes to the financial statements *(continued)*

17 Called up share capital

	2020 £000's	2019 £000's
Allotted, called up and fully paid		
250,000 "A" ordinary shares of £1 each *(2019: 250,000)*	**250**	250
250,000 "B" ordinary shares of £1 each *(2019: 250,000)*	**250**	250
	500	500

18 Dividends

No interim dividend payment has been made for this financial year *(2019: £10,200,000)*. No final dividend for the year ended 31 March 2020 is proposed by the directors *(2019: £nil)*.

19 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2020 the Company had capital commitments of £nil *(2019: £nil)*

b) Lease Commitments

At 31 March 2020 the Company had lease commitments of £nil for leases not yet commenced.

20 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

Notes to the financial statements *(continued)*

21 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 in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

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

In the last financial year, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active deferred members of the scheme, retaining a final salary link.

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.

Although it is anticipated that the scheme surplus will be utilised during the life of the scheme to address member benefits, a retirement benefit surplus is recognised in full by the Group on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. Management also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2020 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 2019. The major assumptions used for the IAS 19 valuation were:

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

Major assumptions	2020 %	2019 %
Rate of increase in pensionable salaries	**2.0**	2.3
Rate of increase in pension payment (past service)	**2.6**	3
Discount rate	**2.4**	2.4
Inflation (CPI)	**1.8**	2.1
Inflation (RPI)	**2.6**	3.2

The expected total employer contributions to be made by participating employers to the scheme in 2020/21 are £24.6m. The future service rate is 51.1%. 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 £24.6m is £12.5m 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:

	2020 Years	2019 Years
Life expectancy from age 65 (male age 65)	**22.1**	21.7
Life expectancy from age 65 (male age 45)	**22.7**	22.7

The changes to the Babcock International Group Plc balance sheet at March 2020 and the changes to the Babcock International Group Plc income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2020 £000	Income statement 2020 £000
Initial assumptions	**1,276,793**	**4,113**
Discount rate assumptions increased by 0.5%	(86,694)	(3,655)
Discount rate assumptions decreased by 0.5%	86,694	2,770
Inflation rate assumptions increased by 0.5%	51,838	1,745
Inflation rate assumptions decreased by 0.5%	(47,497)	(1,585)
Total life expectancy increased by half a year	29,494	787
Total life expectancy decreased by half a year	(29,494)	(787)
Salary increase assumptions increased by 0.5%	6,895	392
Salary increase assumptions decreased by 0.5%	(6,895)	(393)

The weighted average duration of cashflows (years) was 15

Notes to the financial statements *(continued)*

21 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 2020 were:

Fair value of plan of assets	**2020**	2019
	£'000	£'000
Equities	**17,851**	444,412
Property	**136,091**	136,657
Absolute return and multi strategy funds	**87,564**	16,135
Bonds	**588,848**	326,937
Matching assets	**622,665**	544,835
Scheme assets	**1,453,019**	1,468,976
Active position on longevity swaps	**(65,642)**	(60,111)
Total assets	**1,387,377**	1,408,865
Present market value of liabilities - funded	**(1,276,793)**	(1,359,140)
Pension scheme surplus	**110,584**	49,725

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 2020, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	**2020**	2019
	£000	£000
Current service cost	**6,693**	9,615
Incurred expenses	**1,970**	1,965
Past service cost	**-**	13,646
Settlement	**-**	221
Total included within operating profit	**8,663**	25,447
Net interest income	**(1,300)**	(1,524)
Total charged to the income statement	**7,363**	23,923

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £1,027,000 for service cost *(2019: £1,002,000)*, £302,000 for incurred expenses *(2019: £202,000)*, £nil for past service cost *(2019: £1,420,000)*, £nil for settlement *(2019: £23,000)*, and net interest income of £199,000 *(2019: £159,000)*.

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.

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

Although it is anticipated that the scheme surplus will be utilised during the life of the scheme to address member benefits, a retirement benefit surplus is recognised in full by the Group on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. Management also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2020 £000**	2019 £000
Actuarial gain/(loss) recognised in the SOCI	**56,807**	(4,077)
Experience (losses)/gains	**(6,371)**	3,181
Other losses	**(4,088)**	(8,666)
	46,348	(9,562)

The actuarial gain/(loss) recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £9,507,000 *(2019: loss of £193,000).*

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	**2020 £000**	2019 £000
At 1 April	**1,468,976**	1,490,978
Interest	**34,345**	37,789
Employee contributions	**140**	272
Employer contributions	**21,874**	23,011
Benefits paid	**(80,602)**	(102,320)
Settlement	**-**	(2,761)
Actuarial gain	**8,286**	22,007
At 31 March	**1,453,019**	1,468,976

Reconciliation of reimbursement rights	**2020 £000**	2019 £000
At 1 April	**(60,111)**	(50,150)
Interest on reimbursement rights	**(1,444)**	(1,295)
Actuarial gains/(losses)	**(4,087)**	(8,666)
At 31 March	**(65,642)**	(60,111)

Notes to the financial statements (continued)

21 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	**2020 £000**	2019 £000
At 1 April	**1,359,140**	1,380,628
Service cost	**6,693**	9,615
Incurred expenses	**1,970**	1,965
Interest on liabilities	**31,602**	34,972
Employee contributions	**140**	272
Actuarial loss/(gain) – demographics	**6,350**	(21,380)
Actuarial (gain)/loss – financial	**(54,871)**	47,464
Experience losses /(gain)	**6,371**	(3,181)
Benefits paid	**(80,602)**	(102,320)
Past Service cost	**-**	13,646
Settlement	**-**	(2,541)
At 31 March	**1,276,793**	1,359,140

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 £16,962,000 *(2019: £5,174,000)*.

Retirement benefits and liabilities are discussed in the group accounts on note 26 of the annual report of Babcock International group PLC, which does not form part of this report

22 Subsidiary undertaking

All related undertakings for the company are as listed below:

Company Name	Country	Interest	Direct %	Ultimate%
Flagship Fire Fighting Training Limited	United Kingdom	100 Ordinary shares	100.0%	100.0%

The registered office of Flagship Fire Fighting Training Limited is 33 Wigmore Street, London, W1U 1QX.

23 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 *(2019: £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 *(2019: £nil)*.

Notes to the financial statements *(continued)*

24 Immediate and ultimate parent undertakings

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 smallest and largest 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