BABCOCK MISSION CRITICAL SERVICES ONSHORE LIMITED

Annual Report

For the year ended 31 March 2019

Company registration Number:

03776034

BABCOCK MISSION CRITICAL SERVICES ONSHORE LIMITED

CONTENTS

Directors and advisors

Current directors

A H Pentecost

R Youngs

P Craig

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 OFR

Strategic report for the year ended 31 March 2019

The directors present their Strategic report on the Company for the year ended 31 March 2019.

Principal activities

The principal activities of the Company are the provision and operation of twin-engine helicopters. These operate on long-term sole-use contracts primarily providing emergency medical support and police support services. The majority of revenue is generated from fixed fees received for the availability of aircraft with additional variable revenue generated based on the flying activity of the aircraft.

Review of the business

	2019	2018
	£000	£000
Revenue	**38,068**	37,099
(Loss) for the financial year	**(3,902)**	(3,026)

The Company operates at 22 bases around the UK and Ireland and employed an average of 204 (2018: 197) staff during the year.

The Company is in a strong financial position with net assets of £11,480,000 (2018: £15,934,000) and cash balances of £5,126,000 (2018: £7,884,000). The directors are positive about the future growth of the business and operating within a larger business as part of Babcock International Group PLC.

The fatal accident which occurred in Glasgow on November 29, 2013, involving an Airbus Helicopters EC135 helicopter operated by the company, under a contract with the Police Scotland, resulted in a full investigation, being carried out by the Air Accident Investigation Branch (AAIB), together with a separate investigation by Police Scotland under the director of the Procurator Fiscal. The AAIB published its report into the accident in October 2015. A Fatal Accident Inquiry started on April 9, 2019. All evidence has been taken and the Sheriff Principle's determination is awaited.

The Company has an aircraft, employer and aviation liability insurance policies (including civil liability cover) and life insurance policies for employees in place that are consistent with market practices and in compliance with the requirements set forth in the contract we have with Police Scotland.

Total revenue from helicopter services for the current year has increased by 3% compared to the prior years, with flying hours consistent with last year. Delivery of a new H145 aircraft was introduced to provide back up to existing customers and increase training capabilities.

Training services has decreased by 43% as upgrades to the simulator continue, resulting in less availability for training to be undertaken compared to 2018.

Cost of sales has increased by 7% from 2018. The company continues to work with key suppliers to continue to manage this element of the companies cost base.

Strategic report for the year ended 31 March 2019 *(Continued)*

Principal risks and uncertainties

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

The operation of aircraft inherently involves a degree of risk. Due to the critical nature of the services the Company provides, this risk is often compounded through low-altitude flying in adverse climatic or operational conditions or terrains. The Company has made significant investments in safety systems combined with extensive communications to mitigate this risk as far as possible.

The includes safety work streams to identify areas for sharing best practices and improvement opportunities within the domains of safety culture, Organisation, People, Systems and controls and Crew Training and Monitoring.

The key risks and uncertainties affecting the Company are considered to be related to price risk, credit risk, liquidity risk and interest rate risk. The directors manage this 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 70 to 81 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 due to its current order book, market opportunities and building on long-term customer relationships.

On behalf of the Board

Richard Youngs

R Youngs

Director

5 December 2019

Directors' report for the year ended 31 March 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

Dividends

No final dividend for the year ended 31 March 2019 has been declared by the directors (31 March 2018: £nil).

Review of Business and Future developments

Information on review of the Company's business during the year, together with information on the Company's risks and uncertainties and future developments, 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.

Financial risk management *(continued)*

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

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

A H Pentecost
R Youngs
P Craig (Appointed 1 April 2019)
D F Plester (Resigned 1 April 2019)

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

Directors' report for the year ended 31 March 2019 *(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

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

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

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

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

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 2019 *(continued)*

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

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment will be proposed in the Annual General Meeting.

On behalf of the Board

Richard Youngs

R Youngs

Director

5 December 2019

Independent auditors' report to the members of Babcock Mission Critical Services Onshore Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Mission Critical Services Onshore Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss 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 2019; the income statement, the statement of comprehensive income, and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

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

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Independent auditors' report to the members of Babcock Mission Critical Services Onshore Limited *(continued)*

Report on the audit of the financial statements *(continued)*

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 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, 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.

Independent auditors' report to the members of Babcock Mission Critical Services Onshore Limited *(continued)*

Report on the audit of the financial statements *(continued)*

Responsibilities for the financial statements and the audit *(continued)*

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.

Jonathan Bound (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
6 December 2019

Income statement
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	**38,068**	37,099
Cost of sales		**(36,966)**	(34,593)
Gross Profit		**1,102**	2,506
Profit on sale of fixed assets		**(3)**	1,029
Administrative expenses		**(4,842)**	(6,303)
Loss before interest and taxation	5	**(3,743)**	(2,768)
Finance income	6	**53**	160
Finance costs	6	**(157)**	(225)
Loss before income tax		**(3,847)**	(2,833)
Income tax (expense)	10	**(55)**	(193)
Loss for the financial year		**(3,902)**	(3,026)

All of the above results derive from continuing operations.

Statement of comprehensive Income
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Loss for the financial year		**(3,902)**	(3,026)
Other comprehensive income:			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges		**(552)**	626
Total comprehensive expense for the year		**(4,454)**	(2,400)

Balance sheet
as at 31 March 2019

	Note	2019 £000	2018 £000
Non-current assets			
Intangible assets	11	-	-
Tangible fixed assets	12	16,417	9,448
		16,417	9,448
Current assets			
Inventories	13	4,266	3,455
Trade and other receivables	14	11,146	15,370
Cash and cash equivalents		5,126	7,884
		20,538	26,709
Current Liabilities			
Trade and other payables – amounts falling due within one year	15	(13,473)	(14,139)
Derivative Financial Instruments	16	(382)	(122)
Net current assets		6,683	12,448
Total assets less current liabilities		23,100	21,896
Trade and other payables – amounts falling due after more than one year	15	(10,792)	(5,358)
Derivative Financial Instruments	16	(828)	(604)
Net assets		11,480	15,934
Equity			
Called up share capital	19	1,667	1,667
Other reserves		(1,161)	(609)
Retained earnings		10,974	14,876
Total shareholders' funds		11,480	15,934

The notes on pages 14 to 31 are an integral part of these financial statements.

The financial statements on pages 11 to 31 were approved by the board of directors on 5 December 2019 and signed on its behalf by:

Richard Youngs

R Youngs
Director

BABCOCK MISSION CRITICAL SERVICES ONSHORE LIMITED

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital	Revaluation reserve	Hedging reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 1 April 2017	1,667	51	(1,286)	17,902	18,334
Loss for the year				(3,026)	(3,026)
Other comprehensive Income			626		626
Total comprehensive Income / (Expense)			626	(3,026)	(2,400)
Balance at 31 March 2018	**1,667**	**51**	**(660)**	**14,876**	**15,934**
Loss for the year	-	-	-	**(3,902)**	**(3,902)**
Other Comprehensive expense			**(552)**		**(552)**
Total comprehensive expense	-	-	**(552)**	**(3,902)**	**(4,454)**
Balance at 31 March 2019	**1,667**	**51**	**(1,212)**	**10,974**	**11,480**

Notes to the financial statements

1 General information

Babcock Mission Critical Services Onshore 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, as modified by the revaluation of derivative financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006 as applicable to companies using IFRS101. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Mission Critical Services Design and Completions Limited 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.

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

a) IFRS 7, 'Financial instruments: Disclosures'
b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information 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 IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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

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

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.

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 2018.

IFRS 9, '*Financial Instruments*' has been adopted in the year (effective 1 January 2018) and replaces IAS 39. The standard introduces new requirements for classifying and measuring financial instruments. The adoption of IFRS 9 has not had a material impact on the financial position of the company. Accordingly prior year comparatives have not been restated.

IFRS 15, '*Revenue from Contracts with Customers*' (effective 1 January 2018), replaces existing revenue recognition standards. The Company's previous revenue recognition policy was materially compliant with IFRS 15. The Company has adopted the modified transition approach in line with IFRS 15. As such prior year comparative balances have not been adjusted as permitted by the Standard.

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.

(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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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, in accordance with the Group's pricing principles. 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. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

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.

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 by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group management. Assessment of outcomes are in relation to separate performance obligations and include variable consideration, measured using the most likely outcome approach, to the extent that it is highly

2 Summary of significant accounting policies *(continued)*

(c) Revenue and profit recognition *(Continued)*

probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

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) 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.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight line basis as follows:

a) Computer

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

Property, plant and equipment

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

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%
Aircraft airframes	3.33%
Aircraft and components	1% to 10%

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

IFRS 9 introduces an expected credit loss approach to impairment. The Company applies the IFRS 9 simplified approach to measure expected credit losses, which uses a lifetime loss allowance for all trade receivables and contract assets.

Trade Payables

Trade payables are measured initially at fair value and subsequently measured at amortised costs using the effective interest rate method.

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.

Pensions costs and other post-retirement benefits

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.

Notes to the financial statements *(continued)*

2 Summary of significant Accounting policies *(continued)*

Foreign currencies

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

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

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Finance leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

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 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.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at their fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

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

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

a) **Inventory provisioning**

The Company provides helicopter services to customers and has associated components necessary to provide this service as part of inventory. As a result it is necessary to consider the recoverability of the cost of inventory and the associated provisioning required. When calculating the inventory provision, management considers the nature and condition of the inventory, as well as applying assumptions around anticipated saleability of finished goods and future usage of raw materials. See note 13 for the net carrying amount of the inventory and associated provision.

b) **Impairment assessment of property, plant and equipment**

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 12 for the carrying amount of the property plant and equipment, and note 2 'Property, plant and equipment' for the useful economic lives and information on how impairment for each class of asset is assessed.

Notes to the financial statements *(continued)*

4 Revenue

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

	2019 £000 Helicopter Services	2018 £000 Helicopter Services	**2019 £000 Training Services**	2018 £000 Training Services	**2019 £000 Total**	2018 £000 Total
By area of activity:						
Provision of services – transferred over time	**37,597**	36,264	**471**	835	**38,068**	37,099
	37,597	36,264	**471**	835	**38,068**	37,099

	2019 £000	2018 £000
By geographical area:		
United Kingdom	**38,068**	37,099
	38,068	37,099

5 Operating Loss

Operating loss is stated after charging / (crediting):

	2019 £000	2018 £000
Loss / (Profit) on disposal of property, plant and equipment	**3**	(1,029)
Depreciation of tangible fixed assets	**741**	657
Amortisation of intangible asses	**-**	121
Inventory recognised as an expense	**2,096**	1,963
Impairment of inventory	**(33)**	(106)
Operating lease charges		
- Plant and machinery	**11,795**	12,133
- Other	**260**	124
Foreign exchange gains	**(66)**	(155)
Audit fees payable to the Company's auditor	**41**	32

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

Notes to the financial statements *(continued)*

6 Finance income and costs

	2019 £000	2018 £000
Finance income:		
Bank interest	3	-
Loan interest receivable from group undertakings	50	160
	53	160
Finance costs:		
Bank interest	1	2
Finance lease interest	156	165
Loan interest payable to group undertakings	-	58
	157	225

7 Staff costs

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

	2019 Number	2018 Number
By activity:		
Operations	173	144
Management and administration	31	53
	204	197

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	11,778	11,304
Social security costs	1,160	1,155
Other pension costs	699	675
	13,637	13,134

Included in other pension costs are £669,000 (2018: £675,000) in respect of the defined contribution scheme.

Notes to the financial statements *(continued)*

8 Staff costs *(continued)*

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.

9 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were as follows:

	2019 £000	2018 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	**134**	213
Defined contribution pension scheme	**4**	8
	138	221

Except for one (2018: one) director, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the director in relation to other Babcock Group companies.

10 Income tax expense / credit

Tax expense included in income statement

	2019 £000	2018 £000
Current tax:		
UK Corporation tax on profits for the year		-
Adjustment in respect of prior year		-
Current tax charge for the year		-
Deferred tax:		
Origination and reversal of temporary differences	**87**	(164)
Adjustment in respect of prior years	**(23)**	340
Impact of change in UK tax rate	**(9)**	17
Total deferred tax charge	**55**	193
Tax on profit on ordinary activities	**55**	193

Notes to the financial statements *(continued)*

10 Income tax (credit) / expense *(continued)*

Tax expense for the year is higher (2018: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Loss on ordinary activities before taxation	**(3,847)**	(2,833)
Loss on ordinary activities multiplied by standard UK corporation tax rate of 19% (2018: 19%)	**(731)**	(537)
Effects of:		
Expenses not deductible for tax purposes	**45**	42
Group relief surrendered to group companies	**773**	331
Adjustment in respect of deferred tax for prior periods	**(23)**	340
Impact of change in the UK tax rate	**(9)**	17
Tax charge for the year	**55**	193

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 the 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal.

Notes to the financial statements *(continued)*

11 Intangible assets

	Software £000
Cost	
At 1 April 2018 and 31 March 2019	183
At 31 March 2019	**183**
Accumulated amortisation and impairment	
At 1 April 2018 and 31 March 2019	183
At 31 March 2019	**183**
Net book value	
At 31 March 2019	**-**
At 31 March 2018	-

Notes to the financial statements *(continued)*

12 Tangible fixed assets

	Asset Under Construction £000	Freehold property £000	Leasehold property £000	Plant and equipment £000	Aircraft Fleet £000	Total £000
Cost						
At 1 April 2018	215	2,279	2,710	3,425	5,260	**13,889**
Additions	195	-	-	320	7,195	7,710
Disposals	-	-	(29)	-	-	(29)
At 31 March 2019	**410**	**2,279**	**2,681**	**3,745**	**12,455**	**21,570**
Accumulated						
At 1 April 2018	-	625	812	2,078	926	**4,441**
Charge for the year		46	110	251	334	741
Disposals		-	(29)	-	-	(29)
At 31 March 2019	-	**671**	**893**	**2,329**	**1,260**	**5,153**
Net book value						
At 31 March 2019	**410**	**1,608**	**1,788**	**1,416**	**11,195**	**16,417**
At 31 March 2018	215	1,654	1,898	1,347	4,334	9,448

Assets held under finance leases have the following net book value within plant and equipment:

	2019 £000	2018 £000
Cost	**3,836**	3,836
Aggregate depreciation	**(275)**	(198)
Net book value	**3,561**	3,638

Notes to the financial statements *(continued)*

13 Inventories

	2019 £000	2018 £000
Aircraft Spares	**4,155**	3,403
Fuel	**111**	52
	4,266	3,455

There are no significant difference between the replacement cost of the inventory and its carrying amount.

Inventories are stated after the provision for impairment of £209,000 (2018: £242,000). There were impairment decrease of £33,000 (2018:£106,000) during the current year as the spares on hand were assessed and found not to be impaired.

14 Trade and other receivables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade receivables	**1,454**	1,593
Amounts due from group undertakings	**-**	30
Other receivables	**1,632**	3,736
Prepayments and accrued income	**2,360**	2,247
	5,446	7,606
Amounts due after more than one year:		
Amounts due from group undertakings	**5,700**	7,764
	11,146	15,370

Amounts due from group undertakings are unsecured and repayable on demand and bear no interest.

Notes to the financial statements *(continued)*

15 Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade payables	**1,043**	1,776
Amounts due to parent and group undertakings	**503**	846
Finance lease obligations (Note 17)	**381**	381
Taxation and social security	**350**	338
UK corporation tax payable	**1,335**	1,335
Other payables	**1,161**	1,096
Accruals and deferred income	**8,700**	8,367
	13,473	14,139

Amounts falling due after more than one year:

	2019 £000	2018 £000
Amounts due to parent and group undertakings	**6,833**	1,295
Finance lease obligations	**3,464**	3,689
Other payables	**495**	374
	10,792	5,358

With the exception of one group loan, amounts due to parent and group undertakings are unsecured, interest free, and repayable on demand. Within the group loans is one loan (2018: one) of £6,833,000 (2018: £1,295,000) which accrues interest at 4.25% and is payable on repayment.

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

Notes to the financial statements *(continued)*

16 Other financial liabilities

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, 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 with compliance to IFRS.

A Derivative liability being held reflects a value of £1,210,000 (2018: £726,000) used to reduce foreign exposure risk on operating leases.

17 Finance leases

The Company disposed of an aircraft in the prior year and then reacquired it under a collateralised borrowing agreement. The remaining term of the agreement is 4 years. The aircraft will be utilised to service one of the Company's customers, who is also the lessor, until the end of the term.

Future minimum payments under finance leases are as follows:

	2019	2018
	£000	£000
Within one year	**381**	381
In more than one year, but not more than five years	**3,931**	4,313
Total gross payments	**4,312**	4,694
Less finance charges included above	**(467)**	(624)
Carrying value of liability	**3,845**	4,070

18 Deferred taxation

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

Deferred tax liabilities	**Accelerated capital allowances**	**Other**	**Total**
	£000	**£000**	**£000**
At 1 April 2017:	**398**	**(219)**	**181**
- Charged / (credited) to the income statement	**144**	**49**	**193**
At 31 March 2018:	**542**	**(170)**	**374**
- Charged / (credited) to the income statement	**150**	**(95)**	**55**
At 31 March 2019:	**694**	**(265)**	**429**

Notes to the financial statements *(continued)*

19 Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
1,666,666 ordinary shares of £1 each (2018: 1,666,666)	**1,667**	1,667

20 Guarantees and financial commitments

a) Operating lease commitments

At 31 March 2019, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2019 Land and buildings £000	**2019 Other £000**	2018 Land and buildings £000	2018 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	**85**	**4,938**	84	5,233
- between two and five years	**340**	**15,294**	339	17,847
- after five years	**1,690**	**538**	1,964	2,937
	2,115	**20,770**	2,387	26,017

The entity leases various vehicles, equipment and offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases aircraft under non-cancellable operating leases. Included within the above are £20,659,000 (2018: £25,824,000) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

b) Other Commitments

At 31 March 2019 the Company had unpaid pension contributions of £120,283 (2018: £112,797).

The Company financial statements 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.

Notes to the financial statements *(continued)*

21 Related party disclosures

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

22 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 (2018: £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 (2018: £nil).

23 Immediate and Ultimate parent undertakings

The Company's immediate parent company is Babcock Mission Critical Services Design and Completions Limited, 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