Ascent Flight Training (Management) Limited

Annual report and financial statements
Registered number 06522636
31 March 2019

Contents

Strategic Report

Enhanced business review
Ascent Flight Training (Management) Limited is a 100% directly owned subsidiary of Ascent Flight Training (Holdings) Limited.

The principal activity of the company is the development and delivery of training courses and the support of other companies within the Ascent Group ("Ascent"), headed by Ascent Flight Training (Holdings) Limited.

Ascent Flight Training (Holdings) Limited is a joint venture company 50% owned by Lockheed Martin UK Holdings Limited and 50% owned by Babcock Defence and Security Investments Limited.

The principal activity of the group is the development and delivery of specialised flight training courses to the Ministry of Defence ("MoD").

Overview
Ascent Group entered into a 25 year contract with the Ministry of Defence (MoD) on 30 May 2008 to help procure and run the UK Military Flight Training System ("UKMFTS") programme as the Training Service Partner ("TSP") and provision of Fast Jet Training. The Group also entered into contracts for provision of Rear Crew Training in 2009 with an extension to 2020 signed in June 2016, Fixed Wing Training in February 2016 and Rotary Wing Training in May 2016 through to 2033 concurrent with provision of fast Jet Training.

Ascent Group is responsible for managing the delivery of the services, as set out under the TSP contract. It is responsible, as the TSP, for the design and delivery of the training courses, management of the transition for Fixed Wing and Rotary Wing training from legacy training for the UKMFTS programme, through its contractual relationships with the key sub-contractors providing aircraft support for training.

UKMFTS covers the training of UK military aircrew specialisations across the Royal Navy, the Royal Air Force and the Army Air Corps to the quantities as specified by the MoD. The scope of UKMFTS includes aircrew training from the completion of aircrew selection and initial officer training up to the point the student enters the Operational Conversion Unit ("OCU"). UKMFTS also covers the training of the instructors, (both military and civilian) needed within UKMFTS, plus refresher training.

A key role of the Ascent Group within UKMFTS is to integrate all of the necessary components of the training system into a single coherent, efficient and flexible programme so that aircrew are trained in the right quantities and to the right quality.

Key performance indicators
The key performance indicators of the business are:

- to safely deliver the required number of fully trained students during the year within a prescribed time frame;
- to complete the courseware acceptance and commencement of student training of the Fixed Wing and Rotary Wing training to full operational training in 2020;
- to implement and manage amendments to the contract arising through the day to day operational, aircraft modification and safety requirements;
- to manage the assessment and acquisition phase of future work packages in line with agreed additional design tasks; and
- manage total business within agreed financial targets.

Strategic report *(continued)*

Review of developments and performance during the year

The group continued to grow, moving towards full service following the transition of the Elementary Flying, Multi Engine Pilot, Basic Flying and Rotary training together with continuing to delivery Fast Jet and Rear Crew training.

The Fast Jet (FJ) training programme continues to successfully deliver pilots to Operational Conversion Units where they will learn to operate their frontline aircraft. Nevertheless, this delivery was affected by reduced the provision of aircraft (the Hawk T2) and Qualified Flying Instructors (QFIs), both Authority dependencies for FJ. Signs of improvement were noted toward the end of the financial year (FY) for aircraft availability and the QFI positions.

Additionally work has been undertaken to foster an Enterprise based approach across the delivery site at RAF Valley where in excess of 30 different contracts are in place. This is being addressed though the establishment of a joint Integrated Training, Logistics and Operations Cell (ITLOC) and this will be a key enabler in the endeavour to increase student throughput in line with an expanding Authority requirement.

Despite these challenges, the system graduated 21 FJ pilots during the FY along with another 11 QFIs.

The initial phase of the pilot pipeline is Elementary Flying Training (EFT) on the Prefect 120TP and activity here has grown exponentially over the FY. Transition to operational capability has been affected by the slower than expected instructor ramp up profile, airfield services and start up aircraft performance issues. Although they will continue to have an effect through FY20, all of these matters are being addressed by the relevant provider. The overall impact of the Authority dependency in turn contributed to an agreed abatement to the overall Course Completion Incentive Fee for the year.

This year has also seen the commencement of multi-engine flying training on the Phenom aircraft, student and QFI training is now progressing well and the Full Flight Simulator is proving to be a particularly impressive training device.

The Texan T6, the Basic Flying Training (BFT) platform, was released into Service in December 2018, and the first flights have commenced. The receipt of airframe number 10 due in the first half of FY20 will mark a significant milestone with delivery of all of the new aircraft under the UKMFTS contract. The Texan is now being used to test and adjust the BFT syllabus prior to the delivery of training to the first ab-initio student cadre in autumn 2019.

Training delivery at Culdrose remained broadly on schedule due to a realistic and collegiate flying training programme which mitigated against known aircraft availability issues following advice from the Original Equipment Manufacturer (OEM) and GPS modifications required for all aircraft. Aging infrastructure at RNAS Culdrose also necessitated temporary closures of the C1 Hangar due to Duty Holder restrictions with regards the use of the hangar for engineering under strong winds being mitigated through the establishment of an alternative Rubb Hangar solution due in the second half of 2019. An enduring issue remains regarding instructor manning due to insufficient established military posts to cover high Military Instructor churn rate and time spent in training.

It is therefore noteworthy that 750 Naval Air Squadron were able to graduate nine Royal Navy Observers and 6 Royal Navy Aircrew/RAF Weapons Systems Operators during the year.

The Squadron anticipates another period of uncertainty in the next reporting period due to the continuing fragility of instructor numbers and infrastructure.

Strategic report *(continued)*

Review of developments and performance during the year

The ramp up to delivery of Rotary Wing (RW) training through the year was significantly impacted by Authority dependency issues. The provision of aircraft by Airbus Helicopters United Kingdom (AHUK) has been consistently good, but the supply of military Qualified Helicopter Instructors (QHI) and military Qualified Helicopter Crewman Instructors by the Authority has not been sufficient to support Instructor Ramp Up and planned student training as per contract and Flying Training Programme. This led to a number of class delays and a reduced student input at the start of training delivery. Delivery was also affected by the delay to the provision of Flight Training Devices by Lockheed Martin for ab initio training and local Air Traffic Control Restrictions at RAF Shawbury and surrounding satellite training areas.

The overall impact of the Authority dependencies and consequential effects contributed to an agreed abatement to the overall Course Completion Incentive Fee for the year.

Financial performance for the year was in line with expectations. Total service revenue for the year increased by 144% to £111.8million (2018: £45.7 million) through the switch on of Training Service Availability Programme revenue elements for Fixed Wing and Rotary Wing programmes as they came into service and full year revenues for Rotary Wing transition service fee. Profit before taxation increased by 93% to £8.7 million (2018: £4.5 million) reflecting greater focus on training delivery activities.

Review of position at year end
As at 31 March 2019 the Company had net assets of £13.5 million (2018: net assets £11.5 million) and net cash and cash equivalents of £17.4 million (2018: £16.1 million).

Future developments
In addition to the contracted work packages, the Group continues to work closely with the MoD and industry to identify cost effective and value for money solutions to address wider flight training requirements required under the results of the Strategic Defence Spending Review 2016 ("SDSR") through additional design tasks contracts placed on the TSP.

Principal risks and uncertainties
The principal risks and uncertainties facing the company are summarised below.

Strategic risk

The company's principal strategic risk remains government policy in respect of Defence spending, particularly any re-prioritisation away from airborne activities as a result of periodic Strategic Defence Reviews (SDSR) and annual budget constraints. Ascent continues to work in partnership with the Authority to determine how to deliver the programme in light of the funding constraints. The risk is mitigated by continued close working relationships with MOD at all levels as plans for future training packages are developed and to ensure any changes are implemented in a timely fashion. However, inherent risk remains as the SDSR are conducted on a 5 year cycle and Defence spending remains susceptible to any changes in government policy.

As a result of the European Referendum outcome to leave the EU, there remains a strategic risk in respect to the future of UK aviation and cross-border trade depending on the results of the negotiations by the government or a "no deal" situation. These risks are closely monitored through assessment of potential outcomes which may affect our supply chain and any increased regulatory burden to ensure any timely implementation of mitigating actions required.

Strategic report *(continued)*

Operational risk

The principal operating risk for the company is ensuring that all risk to life associated with Ascent aviation operations is reduced to a level that is both Tolerable and As Low As Reasonably Practicable (ALARP), thus providing a safe operating environment for Ascent employees, duty holder personnel, contractor staff and the general public. This is achieved through a comprehensive Safety Management System as well as a positive and proactive safety culture within the company.

Another year of uncertainty is expected due to continuing fragility of Authority Instructor numbers, Authority Air Traffic Provision, aircraft availability and ongoing Duty Holder (DH) restrictions on the use of the aircraft. This is further complicated by a large aircraft embodiment programme, continued test and adjust activity on the Juno and Jupiter aircraft throughout the next period. These all presents a high risk to student output during 2019-20.

Financial risk

The company faces no significant financial risk beyond that derived from normal operating activities and does not hold complex investments or derivatives. The company operates a system of internal control to safeguard the assets of the company and financial control is overseen by the Audit Committee on behalf of the Board.

On behalf of the board

K V Hayzen-Smith
Director

33 Wigmore Street
London
W1U 1QX
26 September 2019

Directors' report

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

Proposed dividend

The directors do not recommend the payment of a final dividend *(2018: £Nil)*.

Dividends paid during the year consist of an interim dividend in respect of the year ended 31 March 2019 of £5.0m *(2018: £4.0m)*.

Directors

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

Name

R A Hardy
N G Misell
T I Bradley
K V Hayzen-Smith
N P Livingston
A L Gowder Graban

Political contributions

The Company made no political donations or incurred any political expenditure during the year (2018: £nil).

Disclosure of information to auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

K V Hayzen-Smith
Director

33 Wigmore Street
London
W1U 1QX

26 September 2019

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and 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 they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

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 estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Ascent Flight Training (Management) Limited

Opinion

We have audited the financial statements of Ascent Flight Training (Management) Limited ("the company") for the year ended 31 March 2019 which comprise the Profit and loss account and other comprehensive income, Balance sheet and Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Independent auditor's report to the members of Ascent Flight Training (Management) Limited *(continued)*

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 6, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of Ascent Flight Training (Management) Limited *(continued)*

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Matt Britton

Matt Britton (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
66 Queen Square
Bristol
BS1 4BE
United Kingdom

30 September 2019

Profit and loss account and other comprehensive income
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Turnover	2	**135,704**	91,902
Cost of sales		**(124,039)**	(84,726)
Gross profit		**11,665**	7,176
Administrative expenses		**(3,105)**	(2,718)
Operating profit		**8,560**	4,458
Interest receivable and similar income	6	**10,712**	11,110
Interest payable and similar expenses	7	**(10,549)**	(11,041)
Profit before taxation	3-5	**8,723**	4,527
Tax on profit	8	**(1,657)**	(860)
Profit for the financial year		**7,066**	3,667
Total comprehensive income for the year		**7,066**	3,667

There was no other comprehensive income for the current or preceding year other than that included in the profit and loss account.

The results for each year were entirely derived from continuing operations.

The notes on pages 13 to 22 form part of these financial statements.

Balance sheet
as at 31 March 2019

	Note	2019 £000	2019 £000	2018 £000	2018 £000
Fixed assets	*9*				
Tangible assets			**2,286**		2,463
Current assets					
Debtors: amounts falling due after more than one year	*10*	**119,887**		115,078	
Debtors: amounts falling due within one year	*10*	**37,054**		46,817	
Cash at bank and in hand		**17,449**		16,124	
		174,390		178,019	
Creditors: amounts falling due within one year	*11*	**(47,127)**		(57,665)	
Net current assets					
Falling due within one year		**7,376**		5,276	
Debtors due after more than one year		**119,887**		115,078	
Net current assets			**127,263**		120,354
Total assets less current liabilities			**129,549**		122,817
Creditors: amounts falling due after more than one year	*12*		**(115,635)**		(110,913)
Provisions for liabilities	*13*		**(377)**		(433)
Net assets			**13,537**		11,471
Capital and reserves					
Share capital	*14*		**1,500**		1,500
Profit and loss account			**12,037**		9,971
Shareholders' funds			**13,537**		11,471

These financial statements were approved by the board of directors on 26 September 2019 and were signed on its behalf by:

K V Hayzen-Smith
Director

The notes on pages 13 to 22 form part of these financial statements.

Statement of Changes in Equity

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2017	1,500	10,304	11,804
Total comprehensive income for the period			
Profit for the financial year	-	3,667	3,667
Transactions with owners, recorded directly in equity			
Dividends	-	(4,000)	(4,000)
Balance at 31 March 2018	1,500	9,971	11,471

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 April 2018	1,500	9,971	11,471
Total comprehensive income for the period			
Profit for the financial year	-	7,066	7,066
Transactions with owners, recorded directly in equity			
Dividends	-	(5,000)	(5,000)
Balance at 31 March 2019	**1,500**	**12,037**	**13,357**

The accompanying notes form part of the financial statements

Notes
(forming part of the financial statements)

1 Accounting policies
Ascent Flight Training (Management) Limited (the "Company") is a company limited by shares and incorporated and domiciled in the UK. The registration number is 06522636 and the registered address is 33 Wigmore Street, London, W1U 1QX.

These financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("FRS 102"). The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The Company's ultimate parent undertaking Ascent Flight Training (Holdings) Ltd includes the Company in its consolidated financial statements. In these statements the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Cash Flow Statement and related notes; and
- Key management personnel compensation

As the consolidated financial statements of Ascent Flight Training (Holdings) Ltd include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The disclosures required by FRS 102.11 *Basic Financial Instruments* and FRS 102.12 *Other Financial Instrument Issues* in respect of financial instruments not falling within the fair value accounting rules of Paragraph 36(4) of Schedule 1.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The preparation of financial statements in conformity with FRS102 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

The critical accounting judgement in in applying the Company's accounting policies is the accounting revenues recognised according to the stage of completion of the contract which requires an estimate of expected total margin for the contract. Contract margins are reviewed on a regular basis to ensure that the recognition of revenues and profits are consistent with management's expectations.

1.1 Measurement convention
The financial statements are prepared on the historical cost basis.

1.2 Going concern
After reviewing the company's forecasts and projections, the directors have a reasonable expectation that the company has adequate resources to continue in operation for the foreseeable future. For these reasons they consider it appropriate to continue to adopt the going concern basis in preparing the financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

1.3 Basic financial instruments

Amounts owed by/ to group undertakings

Amounts owed by/ to group undertakings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances at the bank and cash in hand.

1.4 Turnover

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured and recovery of consideration is considered probable.

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. Revenue from services provided on a short-term or one-off basis is recognised when the service is complete. The provision of services over a long-term period are accounted for under the principles of construction contracts.

Revenue is based on amounts set out under contract and is comprised of six elements:

- Training System Design Fee (TSDF) – revenue is recognised according to the stage of completion of the contract.
- Training Service Availability Payment (TSAP) – revenue is recognised on the satisfaction of contract criteria for the provision of training services and asset delivery and accounted for under the revenue recognition principles of FRS 102.
- Course Completion Incentive Fee (CCIF) – revenue is recognised on successful course completion.
- Whole Service Incentive Fee (WSIF) – revenue is recognised when key performance indicators are met.
- Revenue recognised during the construction phase of contracts as described in 1.5 Financial asset,
- Construction and courseware revenue recognised during the construction phase of contracts not under a PFI arrangement are recognised when the milestone is completed.

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Financial asset

The company's financial asset is the result of a Private Finance Initiative ("PFI") contract.

PFI bid costs

PFI bid costs are accounted for under Section 34 FRS 102 in respect of Service Concession Arrangements. PFI bid costs are held on the balance sheet as a debtor once the group is virtually certain that it will enter into contracts for the relevant PFI project. Virtual certainty is generally achieved at the time the company is selected as preferred bidder. On finalisation of PFI project and financing agreements (financial close), the company charges the cost to the profit and loss account to match with the related revenue stream.

Finance costs

Project specific finance costs are added to the financial asset until the asset to which the finance relates becomes operational. Directly attributed interest costs incurred on borrowings to fund the construction of PFI assets are included as part of the cost of those assets commencing at the start of construction and ceasing when the asset is complete and ready for use.

Financial asset and services contract

Under the PFI contract the underlying asset is not deemed to be an asset of the Company because the risk and rewards of ownership as set out are deemed to lie principally with the MoD.

During the construction phase of the project, all attributable expenditure is included in the financial asset and turnover except interest as set out above.

During the operational phase income is allocated between interest receivable and the financial asset using a project specific interest rate. The remainder of the PFI unitary charge income is included within turnover. The group recognises income in respect of the services provided as it fulfils its contractual obligations in respect of those services and in line with the fair value of the consideration receivable in respect of those services.

Major maintenance costs are recognised on an incurred basis and the revenue receivable in respect of these services is recognised when these services are performed.

1.6 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised directly in the profit and loss account.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the balance sheet dated, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related differences, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Notes *(continued)*

1 Accounting policies *(continued)*

1.6 Taxation (continued)

Deferred tax assets are recognised as recoverable to the extent that, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted.

1.7 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Included within tangible fixed assets are IT costs relating to hardware and software. No reclassification of these items under FRS102 is considered necessary as they are not material.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful economic lives of each tangible fixed asset. Leased assets are depreciated over the shorter of the lease term and their useful economic lives. The estimated useful economic lives are as follows:

Computer and office equipment - Life of lease or useful economic life, straight line basis

2 Turnover

	2019	2018
	£000	£000
Analysis of turnover by activity		
Service revenue	**111,774**	45,745
Construction and courseware revenue	**2,882**	13,048
Financial asset revenue	**21,048**	33,109
	135,704	91,902

All turnover is generated in the United Kingdom

Notes *(continued)*

3 Note to the profit and loss account

	2019	2018
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**177**	199
Auditor's remuneration for the audit of these financial statements	**23**	22

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Ascent Flight Training (Holdings) Limited.

4 Remuneration of directors

Directors' emoluments for the year amounted to £Nil *(2018: £Nil)*. The directors are employees of the company's shareholders and are not employed directly by the company. No direct recharge is made to the company for the cost of directors as it is not possible to accurately estimate the value of services provided to the company.

5 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2019	2018
	No.	No.
Instructors and pilots	**135**	79
Administration	**154**	107
	289	186

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	**15,920**	8,919
Social security costs	**1,611**	945
Other pension costs	**1,818**	1,125
	19,349	10,989

Notes *(continued)*

6 Interest receivable and similar income

	2019 £000	2018 £000
Financial asset interest receivable	**10,549**	11,041
Bank interest receivable	**99**	26
Group interest receivable	**64**	43
	10,712	11,110

7 Interest payable and similar expenses

	2019 £000	2018 £000
Interest payable on finance creditor	**10,549**	11,041
	10,549	11,041

8 Taxation

Total tax expense recognised in the profit and loss account

	2019 £000	2018 £000
UK corporation tax		
Current tax on income for the year	**1,713**	846
Total current tax	**1,713**	846
Deferred tax		
Origination/reversal of timing differences	**(56)**	14
Tax on Profit on ordinary activities	**1,657**	860

Notes *(continued)*

8 Taxation *(continued)*

Reconciliation of effective tax rate

	2019	2018
	£000	£000
Profit for the year	7,066	3,667
Total tax expense	1,657	860
Profit excluding taxation	8,723	4,527
Tax using the UK corporation tax rate of 19% *(2018: 19%)*	1,657	860
Effects of:		
Expenses not deductible for tax purposes	-	-
Total tax expense included in profit or loss	1,657	860

A reduction in the UK corporation tax rate from 19% to 18% (effective 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2019 has been calculated based on these rates.

9 Tangible fixed assets

	Computer and office equipment £000
Cost	
At beginning of year	4,220
At end of year	4,220
Depreciation	
At beginning of year	1,757
Charge for year	177
At end of year	1,934
Net book value	
At 31 March 2019	**2,286**
At 31 March 2018	2,463

Notes *(continued)*

10 Debtors

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade debtors	**17,181**	10,684
Financial asset	**17,462**	33,096
Amounts owed by group undertakings	**1,573**	1,500
Prepayments and accrued income	**838**	1,537
	37,054	46,817
Amounts falling due after more than one year		
Financial asset	**115,635**	110,913
Prepayments	**4,252**	4,165
	119,887	115,078

11 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Trade creditors	**245**	607
Obligations to finance creditor	**17,462**	33,096
Amounts owed to group undertakings	**9,364**	5,750
Other tax and social security	**2,145**	2,125
Corporation tax	**833**	493
Accruals and deferred income	**17,078**	15,594
	47,127	57,665

12 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Obligations to finance creditor	**115,635**	110,913

Notes *(continued)*

13 Provision for liabilities

	Deferred taxation £000
At beginning of the year	433
Credited to the profit and loss for the year	(56)
At end of year	377

The elements of deferred taxation are as follows:

	2019 £000	2018 £000
Difference between accumulated depreciation and amortisation and capital allowances	**377**	433
Deferred tax liability	**377**	433

14 Capital and reserves

	2019 £000	2018 £000
Authorised, allotted, called up and fully paid		
1,500,0000 ordinary shares of £1 each	**1,500**	1,500

15 Contingent liabilities

The company had no contingent liabilities as at 31 March 2019 *(2018: None)*.

16 Related party transactions

During the year, the company had transactions with its shareholders and their wholly owned Group companies which are summarised below:

	2019 £000	2018 £000
Staff provision and other Group services		
- Babcock Group companies	**1,137**	1,630
- LM Group companies	**3,181**	6,734
The balances due to them at the year end are:		
- Babcock Group companies	99	284
- LM Group companies	-	256

Notes *(continued)*

17 Ultimate controlling party and parent undertaking of larger group of which the company is a member

The Company is a subsidiary undertaking of Ascent Flight Training (Holdings) Limited which is the ultimate parent Company incorporated in England and Wales, which in turn is jointly owned by Lockheed Martin UK Holdings Ltd, a company registered in England and Wales; and Babcock Defence and Security Investments Ltd, a company registered in England and Wales.

The largest group in which the results of the Company are consolidated is that headed by Ascent Flight Training (Holdings) Limited whose registered office is 33 Wigmore Street, London W1U 1QX. The consolidated financial statement of these groups are available to the public and may be obtained from 33 Wigmore Street, London W1U 1QX.