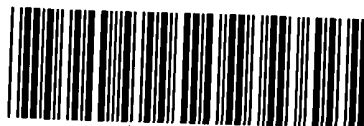


Liquid Gas Equipment Limited
Annual report
For the year ended 31 March 2017
Company registration number:
SC434537

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COMPANIES HOUSE

Liquid Gas Equipment Limited

Directors and advisors

Current directors

N E C Campbell
A R Duckett
J Hall
M W Hardy
I Lindsay
I Urquhart

Company secretary

Babcock Corporate Secretaries Limited

Registered office

Young House
42 Discovery Terrace
Heriot-Watt University Research Park
Edinburgh
EH14 4AP

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Bankers

The Royal Bank of Scotland PLC
Glasgow Branch
10 Gordon Street
Glasgow
G1 3PL

Liquid Gas Equipment Limited

Strategic report for the year ended 31 March 2017

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

Principal activities

The principal activities of the Company are the design and installation of liquid gas storage and handling systems for both marine and onshore markets, principally within the oil and gas industry.

Review of the business

The company's results are mainly from its core market being long term contracts supplying cargo handling systems for Liquid Petroleum Gas (LPG) ships. The company's clients are mainly shipyards manufacturing various sizes of gas ships out of South East Asia.

In the year ended 31 March 2017, the company experienced a strong year with a high volume of contract execution within its core LPG market for both existing and new clients. The company has now experienced the peak of the LPG business and strives to maintain its core market position, building strong relationships with its major customers and further growing into related strategic markets.

	2017	2016
	£000	£000
Revenue	109,182	170,809
Profit for the financial year	8,333	7,100

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 key risks and uncertainties affecting the Company are considered to be related to contractual performance, the political and regulatory environment, and exposure to foreign exchange. The directors manage this risk by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

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

Liquid Gas Equipment Limited**Strategic report for the year ended 31 March 2017** *(continued)***Key performance indicators**

The Company's activities are managed both at a company level and divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Marine & Technology, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 30 to 37 & 38 to 43 of the Group's report, which does not form part of this report.

On behalf of the board



Ian Lindsay

Director

20.07.17

Date

Liquid Gas Equipment Limited

Directors' report for the year ended 31 March 2017

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

Dividends

Dividends to the value of £4,000k (amounting to £2,000k per share to Babcock Integrated Technology Limited) for the year ended 31 March 2017 have been provided by the directors (2016: nil). No further dividends had been declared nor recommended to be paid up to the date of signing of the financial statements.

Future developments

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

Financial risk management

The company's principal financial instruments comprise cash at bank and bank overdrafts as well as financial derivatives. The main purpose of these financial instruments is to manage the company's funding and liquidity requirements. The company has other financial instruments such as trade debtors and trade creditors which arise directly from its operations. The principal financial risks to which the company is exposed are those relating to foreign currency, commodity price and credit risk. All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 34 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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.

Liquid Gas Equipment Limited

Directors' report for the year ended 31 March 2017 *(continued)*

Directors

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

N E C Campbell
A R Duckett
J Hall
M W Hardy
I Lindsay
I Urquhart (appointed 19 September 2016)
F Martinelli (resigned 19 September 2016)

Safety policy

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

Research and development

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

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.

Liquid Gas Equipment Limited

Directors' report for the year ended 31 March 2017 (*continued*)

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

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

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

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

Qualifying third party indemnity provisions

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

Liquid Gas Equipment Limited

Directors' report for the year ended 31 March 2017 (*continued*)

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.

On behalf of the board



I Lindsay

Director

20-07-17

Date

Liquid Gas Equipment Limited

Independent auditors' report to the members of Liquid Gas Equipment Limited

Report on the financial statements

Our opinion

In our opinion, Liquid Gas Equipment Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the balance sheet as at 31 March 2017;
- the income statement and statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Liquid Gas Equipment Limited

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
21 July 2017

Liquid Gas Equipment Limited

Income statement

for the year ended 31 March 2017

	Note	2017 £000	2016 £000
Revenue	3	109,182	170,809
Cost of sales		<u>(84,876)</u>	<u>(147,250)</u>
Gross profit		24,306	23,559
Administrative Expenses		(12,623)	(13,422)
Operating profit	6	<u>11,683</u>	<u>10,137</u>
Profit on ordinary activities before interest and taxation		11,683	10,137
Finance income	5	5	8
Finance costs	5	<u>(1,293)</u>	<u>(1,270)</u>
Profit on ordinary activities before taxation		10,395	8,875
Income tax expense	9	<u>(2,062)</u>	<u>(1,775)</u>
Profit for the financial year		<u>8,333</u>	<u>7,100</u>

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2017

	2017 £000	2016 £000
Profit for the financial year	<u>8,333</u>	<u>7,100</u>

Liquid Gas Equipment Limited

Balance sheet as at 31 March 2017

	Note	2017 £000	2016 £000
Non-current assets			
Intangible assets	10	34,031	34,031
Tangible fixed assets	11	0	0
Derivative Financial Instruments	12	599	181
		<u>34,630</u>	<u>34,212</u>
Current assets			
Trade and other receivables	12	47,217	74,772
Derivative Financial Instruments	12	64	3,206
Cash and cash equivalents		<u>12,542</u>	<u>22,654</u>
		59,823	100,632
Trade and other payables – amounts falling due within one year	13	(70,619)	(112,656)
Derivative Financial Instruments	13	(1,889)	(6,964)
Provisions for liabilities	14	(2,781)	(657)
Net current liabilities		<u>(15,466)</u>	<u>(19,645)</u>
Total assets less current liabilities		<u>19,164</u>	<u>14,567</u>
Derivative Financial Instruments – amounts falling due after more than one year	13	(125)	(504)
Provisions for liabilities	14	(143)	(1,492)
Net assets		<u>18,896</u>	<u>12,571</u>
Equity			
Called up share capital	17	0	0
Other reserves		(1,702)	(3,694)
Retained earnings		<u>20,598</u>	<u>16,265</u>
Total shareholders' funds		<u>18,896</u>	<u>12,571</u>

The financial statements and notes, which form an integral part of these financial statements, on pages 10 to 31 were approved by the board of directors and signed on its behalf by:



I Lindsay
Director

Date 20.03.17

Registered number SC434537

Page 11

Liquid Gas Equipment Limited**Statement of changes in equity
for the year ended 31 March 2017**

	Note	Called up share capital	Share premium	Other reserves	Retained earnings	Total shareholders' funds/(deficit)
		£000	£000	£000	£000	£000
Balance at 1 April 2015		-	-	(17,523)	9,165	(8,358)
Profit for the financial year		-	-	-	7,100	7,100
Other comprehensive income for the year		-	-	13,829	-	13,829
Balance at 31 March 2016		-	-	(3,694)	16,265	12,571
Profit for the financial year		-	-	-	8,333	8,333
Other comprehensive income for the year		-	-	1,992	-	1,992
Dividends paid		-	-	-	(4,000)	(4,000)
Balance at 31 March 2017		0	0	(1,702)	20,598	18,896

Liquid Gas Equipment Limited

Notes to the financial statements

1 General information

Liquid Gas Equipment Limited is a private company which is incorporated and domiciled in the UK. The address of the registered Office is Young House, 42 Discovery Terrace, Heriot-Watt University Research Park, Edinburgh, EH14 4AP.

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. The Company has adopted FRS 101 in these financial statements.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using FRS 101. 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 land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. 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 2.

The Company is a wholly owned subsidiary of its ultimate parent, Babcock International Group PLC, and part of the Marine and Technology division. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73© of IAS 16 Property, plant and equipment; and
 - paragraph 118© of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

(b) Sale of services

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

(c) Long-term service contracts

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

From December 2016, new orders secured are recognised on a renewed methodology, where forecast revenue and profits are recognised on a balanced, risk based approach given the contractual terms and conditions in place with both customers and supply chain whilst ensuring continued alignment with both IAS 18 'Revenue' and IFRS 15 'Revenue from Contracts with Customers'. B18 Input methods recognise revenue on the basis of the entity's efforts or inputs to the satisfaction of a performance obligation (for example, resources consumed, labour hours expended, costs incurred, time elapsed or machine hours used) relative to the total expected inputs to the satisfaction of that performance obligation. If the entity's efforts or inputs are expended evenly throughout the performance period, it may be appropriate for the entity to recognise revenue on a straight-line basis.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outcome and the expected profit. In line with the new revenue recognition methodology, projects secured from December 2016 will have profit recognised on a straight-line basis.

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

Contract accounting balances

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).

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs are recognised as an asset and amortised over the life of the contract when it can be reliably expected that a contract will be obtained and the contract is expected to result in future net cash inflows.

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract.

Intangible assets

a) Goodwill

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

Annual impairment reviews are performed as outlined in note 10. In this case, there is no goodwill impairment deemed to be required.

Relationships are valued on a contract by contract and customer by customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case. The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

The carrying value of the brands are amortised over the period in which it is estimated that the particular brands are likely to bring economic benefit via future orders. The maximum amortisation period for existing acquired brands is five years.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

b) *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

Property, plant and equipment

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

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

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

Investments

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

Inventory and work in progress

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

Trade receivables

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

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.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

(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.

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

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities *(continued)*

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

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

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

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

Derivative financial instruments

The company enters into forward contracts for the purchase and/or sale of foreign currencies in order to manage its exposure to fluctuations in currency rates. All forward exchange contracts that have been designated in a hedge accounting relationship undergo effectiveness testing at the balance sheet date to ensure that the hedge remains highly effective. Forward exchange contracts are valued at the period end exchange rate and shown in the balance sheet as financial assets or liabilities. Gains or losses on cash flow hedges that are regarded as highly effective are recognised in the hedging reserve. Gains or losses on ineffective hedges are recognised in the profit and loss account.

Long Term Contracts

A long term contract is defined as the supply of a single substantive asset or the provision of a service where the time taken to contract execution extends for more than 12 months. Sales revenue recorded on long term contracts in line with a balanced, risk based approach given the contractual terms and conditions in place with both customers and supply chain. From December 2016, new orders secured are recognised on a renewed methodology, where forecast revenue and profits are recognised on a balanced, risk based approach given the contractual terms and conditions in place with both customers and supply chain whilst ensuring continued alignment with both IAS 18 'Revenue' and IFRS 15 'Revenue from Contracts with Customers'. Recognition of contract profit requires a careful estimate of the final costs, expected increases, delays and penalties which could reduce the expected profit. In order to manage this uncertainty, the company used contract management risk analysis processes to identify, quantify and manage the risk associated with the contracts. From December 2016, new projects will have profit recognised on a straight-line basis.

Profit earned on long term contracts is recognised when the forecast probability of the contract can be estimated with reasonable confidence. Losses are taken in full, as soon as they become foreseeable with reasonable certainty.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

The gross amount due from customers for contract work for all contracts is work in progress for which cost incurred plus recognised profits exceeds progress billings is shown under "amounts recoverable on contracts" within debtors.

The gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits is shown under "payments received on account of long term contracts" within creditors.

Pre-contract costs are recognised as expenses as incurred.

Short Term Contracts

Sales revenue recorded on short term contracts is calculated as contract costs incurred. Profit is recognised on completion of the work.

The gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits exceeds progress billings is shown under "amounts recoverable on contracts" within debtors.

The gross amount due to customers for contract work on all contracts in progress for which progress billings exceed costs incurred plus recognised profits is shown under "payments received on account of long term contracts" within creditors.

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 judgements detailed above (including revenue recognition, intangible assets, foreign currency and treatment of derivatives) have had the most significant effects on amounts recognised in the financial statements.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

3 Revenue

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

	2017 £000	2016 £000
	Supply of Cargo Handling Systems	Supply of Cargo Handling Systems
By area of activity:		
Short term contracts	799	518
Long term contracts	108,383	170,291
	<u>109,182</u>	<u>170,809</u>

All the revenue originated in the United Kingdom.

4 Contract revenue

	2017 £000	2016 £000
From ongoing contracts:		
Contract costs incurred	339,772	254,824
Recognised profits less recognised losses	60,496	36,262
	<u>400,268</u>	<u>291,086</u>
Progress billings	408,080	328,141
Due from customers	801	1,606
Due to customers	<u>(8,613)</u>	<u>(38,661)</u>

5 Finance income and costs

	2017 £000	2016 £000
Finance income:		
Bank interest	5	8
	<u>5</u>	<u>8</u>
Finance costs:		
Loan interest payable to group undertakings	(1,293)	(1,270)
	<u>(1,293)</u>	<u>(1,270)</u>

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

6 Operating profit

Operating profit is stated after charging / (crediting):

	2017 £000	2016 £000
Depreciation of tangible fixed assets	0	25
Operating lease charges	121	125
Research and development recognised as an expense	896	264
Foreign exchange losses/(gains)	(47)	401
Audit fees payable to the Company's auditors	29	29

Fees of £29k paid to the Company's auditors (2016: £29k), 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.

7 Staff costs

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

	2017 Number	2016 Number
By activity:		
Operations	91	87
Management and administration	20	18
	<u>111</u>	<u>105</u>

Their aggregate remuneration comprised:

	2017 £000	2016 £000
Wages and salaries	4,624	4,259
Social security costs	556	467
Other pension costs	248	224
	<u>5,428</u>	<u>4,950</u>

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

8 Directors' remuneration

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

	2017 £000	2016 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	423	320
Money purchase pension schemes	22	26
Aggregate amounts receivable under long-term incentive scheme	0	51
	<u>445</u>	<u>397</u>

Except for two directors (2016: two), 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 directors in relation to other Babcock Group companies.

The above amounts for remuneration include the following in respect of the highest paid director:

	2017 £000	2016 £000
Emoluments (excluding pension contributions)	214	138
Money purchase pension scheme	10	12

9 Income tax

Tax expense included in income statement	2017 £000	2016 £000
Current tax:		
UK Corporation tax on profits for the year	2,059	1,780
Current tax charge for the year	<u>2,059</u>	<u>1,780</u>
Deferred tax:		
Origination and reversal of timing differences	23	(2)
Prior year adjustments	(19)	-
Impact of change in UK tax rate	(1)	-
Other	-	(3)
(note 16)	<u>3</u>	<u>(5)</u>
Tax on Profit	<u>2,062</u>	<u>1,775</u>

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

9 Income tax (continued)

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

	2017 £000	2016 £000
Profit on before taxation	10,395	8,875
Profit multiplied by standard UK corporation tax rate of 20% (2016: 20%)	2,079	1,775
Adjustment in respect of prior years	-	(5)
Adjustment in respect of deferred tax for prior years	(19)	-
Impact of change in UK tax rate	(1)	-
Expenses not deductible for tax purposes	3	3
Other	-	2
Total tax charge for the year	2,062	1,775

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

10 Intangible assets

	Goodwill £000	Total £000
Cost		
At 1 April 2016 and 31 March 2017	34,031	34,031
Accumulated amortisation and impairment		
At 1 April 2016	-	-
Impairment	-	-
At 31 March 2017	-	-
Net book value		
At 31 March 2017	34,031	34,031
At 31 March 2016	34,031	34,031

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

10 Intangible assets *(continued)*

Goodwill arose on acquisition by Babcock International Group Plc in December 2012. The directors have evaluated the carrying value of goodwill as at 31 March 2017. Given that the company is carrying order book at 31 March 2017 securing future revenues, along with the outlook into new strategic markets, the directors have concluded that no impairment adjustment is required.

11 Tangible assets

	Plant and equipment £000	Total £000
Cost		
At 1 April 2016	59	59
At 31 March 2017	59	59
Accumulated depreciation		
At 1 April 2016	59	59
Charge for the year	0	0
At 31 March 2017	59	59
Net book value		
At 31 March 2017	-	-
At 31 March 2016	-	-

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

12 Trade and other receivables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade receivables	1,284	14,142
Amounts due from customers for contract work	801	1,606
Amounts owed by group undertakings	43,673	48,448
Derivative financial instruments	64	3,206
Deferred tax asset (note 16)	29	32
Other receivables	264	1,945
Prepayments and accrued income	1,166	8,599
	47,281	77,978
Amounts due after more than one year:		
Derivative financial instruments	599	181
	47,880	78,159

Amounts owed by group undertakings are unsecured and repayable on demand.

There are five major loans (2016: four) to group companies:

- All 5 loans totalling £44m (2016: all 4 loans totalling £48m) are repayable on demand, with no interest charge.

13 Trade and other payables

	2017 £000	2016 £000
Amounts falling due within one year:		
Trade creditors	14,278	27,450
Amounts owed to parent and group undertakings	40,368	38,164
Taxation and social security	119	120
UK corporation tax payable	5,539	3,555
Payments received on account	8,613	38,661
Accruals and deferred income	1,702	4,706
	70,619	112,656
Provisions for liabilities	2,781	657
Derivative financial instruments	1,889	6,964
	75,289	120,277

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

13 Trade and other payables (continued)

Amounts falling due after more than one year:

	2017 £000	2016 £000
Provisions for liabilities	143	1,492
Derivative financial instruments	125	504
	<u>268</u>	<u>1,996</u>

Amounts owed to parent and group undertakings are unsecured and repayable on demand. The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 20).

14 Provisions for liabilities

	Property provision £000	Warranty provision £000	Total £000
At 1 April 2016	90	2,059	2,149
Charged to the income statement	0	2,442	2,442
Released to the income statement	0	(687)	(687)
Cash Paid External	0	(980)	(980)
At 31 March 2017	<u>90</u>	<u>2,834</u>	<u>2,924</u>
Current (within 12 months)	90	2,691	2,781
Non-Current	0	143	143
Total	<u>90</u>	<u>2,834</u>	<u>2,924</u>

Warranty provisions include provisions for expected warranty and contract damages claims on products sold and services provided. It is expected that all costs related to such claims will have been incurred within 5 years of the balance sheet date.

The property provision is a dilapidation provision to make repairs to the company's rented office space when the business relocates to Rosyth in 2017.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

15 Other financial assets and 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.

	2017		2016	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
FX Debtor/(Creditor) Revaluation	166	(1,142)	977	(590)
Forward FX contracts – cash flow hedges	497	(872)	2,410	(6,878)
Total	663	(2,014)	3,387	(7,468)
<i>Less non-current portion</i>				
Forward FX contracts – cash flow hedges	599	(125)	181	(504)
Current portion	64	(1,889)	3,206	(6,964)

	2017 £000	2016 £000
Forward FX contracts – (charged)/credited to P & L in year	47	(401)
Total	47	(401)

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

16 Deferred taxation

The major components of the deferred tax assets are recorded as follows:

Deferred tax assets	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2016:	15	17	32
- Charged to income statement	(3)	-	(3)
At 31 March 2017:	12	17	29

17 Called up share capital

	2017	2016
Allotted and fully paid		
2 ordinary shares of £1 each (2016: 2)	2	2

18 Dividends

£4m dividends were paid in the year, amounting to £2m per share to Babcock Integrated Technology (2016: nil). No further dividends were been declared up to the date of signing of the financial statements.

19 Guarantees and financial commitments

a) Contingent liabilities

At the year end the Company had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £15m (2016: £15m). No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

Liquid Gas Equipment Limited

Notes to the financial statements (continued)

19 Guarantees and financial commitments (continued)

b) Operating lease commitments

At 31 March 2017, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2017 Land and buildings £000	2016 Land and buildings £000
Future minimum rentals payable under non-cancellable operating leases:		
- within one year	45	41
- between two and five years	-	-
- after five years	-	-
	<u>45</u>	<u>41</u>

The entity leases office premises situated in Young House, 42 Discovery Terrace, Heriot-Watt University Research Park, Edinburgh, EH14 4AP. The current lease on the property expired in July 2016, at which time the lease was renewed on a rolling 3 months basis pending relocation to Rosyth in Q3 of 2017.

c) Capital Commitments

At 31 March 2017 the Company had no capital commitments, (2016: £nil).

20 Related party disclosures

All related undertakings for the Company are as listed below:

Company Name & Address	Country	Interest	Direct %	Ultimate%
Babcock IP Management (Number One) Limited 33, Wigmore Street, London, England, W1U 1QX, United Kingdom	United Kingdom	£0.01 Ordinary share	0.01%	0.01%

21 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to a defined contribution scheme (the "Defined contribution Scheme 1") in respect of a number of its employees.

Liquid Gas Equipment Limited

Notes to the financial statements *(continued)*

22 Ultimate parent undertaking

The Company's immediate parent company is Babcock Integrated Technology Limited, a company 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