Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2021

Company registration number:

SC046710

Babcock Critical Services Limited

Directors and advisors

Current directors
Parker, J R
Spicer, C J L

Company secretary
Babcock Corporate Secretaries Limited

Registered office
103 Waterloo Street
Glasgow
G2 7BW

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Southampton
SO14 3TJ

Strategic report

The directors present their Strategic report on the company for the year ended 31 March 2021.

Principal activities

The company provides support services operations in the Emergency Services sector. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

Review of the business

	2021 £000	2020 Restated £000
Revenue	**74,670**	80,730
Loss before interest and tax	**(17,681)**	(8,503)
Net (liabilities) / assets	**(22,454)**	1,362

Revenue & gross margin were broadly in line with expectations, with the £6.1m decrease in revenue expected as it primarily relates to the ending of the British Airways contract at Heathrow airport and the exit from the mining and construction sector. However the company has recorded an operating loss of £17.7m, a figure that is being impacted by a £19.2m reduction in the carrying value of the investment in Babcock Vehicle Engineering Limited.

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 overexposure to any one of our market sectors, the political and regulatory environment and the ability to recruit and retain quality staff. The directors manage this risk by meeting on a regular basis to discuss these risks. Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19, is provided on pages 84 to 95 of the annual report of Babcock International Group PLC, which does not form part of this report.

The primary contracts held by the company are long term in nature and provide essential support service operations principally in the emergency services sector. These services relate to the provision of maintenance and fleet management support services. Due to the nature of the contracts in place there has been minimal impact on the company as a result of Covid-19. During the initial periods of lockdown operations have remained at normal levels. Fleet management and the availability of emergency services vehicles remain as important as ever, and this is expected to remain the situation in future.

Future developments

On 30 June 2019 the company's fleet management contract with British Airways at Heathrow Airport ended with the relevant staff transferring to the new provider. On 31 December 2019 the company exited the Mining and Construction sector. The company continues to pursue and develop opportunities within the Fleet Management Sector. New opportunities are expected to come to market as Public Sector Authorities begin to transition existing Fleet's towards future Electric Vehicle (EV) Fleet's. The company is well positioned to support such activity given its experience working with existing customers on sustainability, while also possessing the Fleet intelligence technological capabilities to provide insight that can add value and reduce lifecycle costs.

Key performance indicators

The company's activities are managed on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the company. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the company, is discussed on pages 54 and 55 of the Group's report, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to be satisfied with the level of performance.

S172 (1) statement and stakeholder engagement.

The directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 58, 59, 79 and 114 to 116 of the annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group annual report considered all relevant factors for the company, in particular the company's engagement with its customers and employees. During the year, regular and frequent engagement continued with all customers to ensure effective operational running of the contracts. This engagement with customers has further increased to ensure a joint approach to responding to COVID-19 was achieved.

On behalf of the board

J R Parker
Director

27 April 2023

Directors' report

The directors present their report and the audited financial statements of the company for the year ended 31 March 2021.

Dividends

An interim dividend of £nil was paid in the year (2020: £nil). No final dividend for the year ended 31 March 2021 has been proposed by the directors (2020: £nil).

Future developments

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

Financial risk management

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

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

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

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

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

Interest rate risk
The company has interest-bearing assets. Cash balances accrue interest at a floating rate and intercompany loans accrue interest at a fixed rate. The company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors' report *(continued)*

Directors

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

J R Parker
R H Taylor (resigned 31 October 2021)
M Hayward (resigned 8 December 2021)
C J L Spicer (appointed 8 December 2021)
S White (resigned 20 April 2020)

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

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.

Directors' report *(continued)*

Going concern

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed.

In coming to this conclusion, we have also fully considered the impact of Covid-19 on the company and assessed this as immaterial given the nature of its activities and contracts as described in the strategic report above.

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

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

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

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

Directors' report *(continued)*

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

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

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.

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

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

Appointment of auditors

PricewaterhouseCoopers LLP has now completed its final audit as external auditor. Deloitte LLP has been selected as the company's external auditor for the financial year ending 31 March 2022 following shareholder approval at the Annual General Meeting.

On behalf of the board

J R Parker
Director
27 April 2023

Independent auditors' report to the directors of Babcock Critical Services Limited

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 31 March 2021; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

Independent auditors' report to the directors of Babcock Critical Services Limited *(continued)*

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to employment law and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to overstatement of revenue and profit through the posting of inappropriate journals or management bias in the recognition of accounting estimates. Audit procedures performed by the engagement team included:

Independent auditors' report to the directors of Babcock Critical Services Limited *(continued)*

- Discussions with management regarding known or suspected instances of non-compliance with laws and regulations, and fraud.
- Performing a reconciliation of all transactions in the year to the financial statements and identifying and testing journal entries based on our risk assessment.
- Reviewing management's long term contract accounting models to ensure assumptions made are reasonable and supportable, that the model is in compliance with relevant accounting standards and that calculations within the model are appropriate and correct.
- Reviewing the financial statement disclosures with reference to the applicable reporting frameworks to confirm disclosures made are in accordance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Sasha Lewis (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton
28 April 2023

Babcock Critical Services Limited

Income Statement

for the year ended 31 March 2021

	Note	2021 £000	2020 Restated £000
Revenue	5	**74,670**	80,730
Cost of sales		**(66,929)**	(73,491)
Gross profit		**7,741**	7,239
Administrative expenses		**(6,225)**	(8,441)
Other operating income	6	**3**	181
Amounts written off investments	6	**(19,200)**	(13,482)
Operating loss	6	**(17,681)**	(14,503)
Income from shares in group undertakings		**-**	6,000
Loss before interest and taxation		**(17,681)**	(8,503)
Finance income	7	**323**	130
Finance expenses	7	**(522)**	(870)
Other finance income - pensions	26	**287**	92
Loss before taxation		**(17,593)**	(9,151)
Income tax expense	10	**(369)**	(282)
Loss for the financial year		**(17,962)**	(9,433)

All of the above results derive from continuing operations.

Statement of Comprehensive Income

for the year ended 31 March 2021

	Note	2021 £000	2020 Restated £000
Loss for the financial year		**(17,962)**	(9,433)
Other comprehensive (loss)/income:			
Items that will not be subsequently reclassified to income statement:			
(Loss)/gain on re-measurement of net defined benefit obligation	26	**(7,227)**	3,959
Tax on defined benefit obligation	10	**1,373**	(805)
Total other comprehensive (loss)/income		**(5,854)**	3,154
Total comprehensive loss		**(23,816)**	(6,279)

Babcock Critical Services Limited

Statement of Financial Position

as at 31 March 2021

	Note	2021 £000	2020 Restated £000
Fixed Assets			
Intangible assets	11	**372**	556
Tangible fixed assets	12	**6,599**	7,142
Right-of-use assets	13	**7,131**	8,418
Investments	14	**648**	19,848
Pension asset	26	**1,763**	7,829
		16,513	43,793
Current assets			
Inventories	15	**1,861**	1,661
Trade and other receivables	16	**87,971**	82,084
Cash and cash equivalents	17	**5,219**	11,658
		95,051	95,403
Current liabilities			
Trade and other payables	18	**(124,892)**	(127,348)
Lease liabilities	19	**(1,136)**	(1,245)
Cash and cash equivalents	17	**(949)**	-
Net current liabilities		**(31,926)**	(33,190)
Total assets less current liabilities		**(15,413)**	10,603
Lease liabilities	19	**(6,566)**	(7,606)
Provisions for liabilities	20	**(475)**	(1,635)
Net (liabilities)/assets		**(22,454)**	1,362
Equity			
Called up share capital	22	**19,908**	19,908
Accumulated losses		**(42,362)**	(18,546)
Total shareholders' funds		**(22,454)**	1,362

The notes on pages 14 to 45 are an integral part of these financial statements.

The financial statements on pages 11 to 45 were approved by the Board of Directors and signed on its behalf by:

J R Parker

J R Parker
Director
27 April 2023

Registered number SC046710

Babcock Critical Services Limited

Statement of Changes in Equity

for the year ended 31 March 2021

	Called-up share capital	Accumulated Losses £000	Total Shareholders' Funds
	£000		£000
Balance at 1 April 2019 (previously stated)	19,908	(8,582)	11,326
Prior year adjustment		(3,685)	(3,685)
Balance at 1 April 2019 (restated)	19,908	(12,267)	7,641
Loss for the financial year (restated)	-	(9,433)	(9,433)
Other comprehensive loss	-	3,154	3,154
Total comprehensive loss for the year (restated)	-	(6,279)	(6,279)
Balance at 31 March 2020	19,908	(18,546)	1,362
Loss for the financial year	-	**(17,962)**	**(17,962)**
Other comprehensive loss	-	**(5,854)**	**(5,854)**
Total comprehensive loss for the year	-	**(23,816)**	**(23,816)**
Balance at 31 March 2021	**19,908**	**(42,362)**	**(22,454)**

Notes to the financial statements

1 General information

Babcock Critical Services Limited is a private company limited by shares, which is incorporated and domiciled in Scotland, UK. The address of the registered office is 103 Waterloo Street, Glasgow, G2 7BW.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The company is a wholly owned subsidiary of Babcock Critical Assets Holdings LLP and of its ultimate parent, Babcock International Group PLC, a company incorporated in England. 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) IFRS 7, 'Financial instruments: Disclosures'
b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
c) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 'Share capital and reserves';
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
f) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d),10(f) 16, 38, 40, 40A, 40B, 40C, 40D, 111, and 134-136

g) IAS 7, 'Statement of cash flows'

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
i) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
j) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
k) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, 'impairment of assets' (disclosures when the recoverable amount is fair value less costs of disposal, assumptions involved in estimating recoverable amounts of cash-generating units containing goodwill or intangible assets with indefinite useful lives, and management's approach to determining these amounts).

Going concern

The financial statements have been prepared on a going concern basis as Babcock International Group PLC, the ultimate parent company, intends to support the company to ensure it can meet its obligations as they fall due. The directors have received confirmation that Babcock International Group PLC intends to support the company for at least one year after the financial statements are signed. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

In coming to this conclusion we have also fully considered the impact of Covid-19 on the company and assessed this as immaterial given the nature of its activities and contracts as described in the strategic report above.

Adoption of new and revised standards

There are no amendments to accounting standards that are effective for the year ended 31 March 2021 that have a material impact on the company's financial statements.

Revenue

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

(a) Performance obligations

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

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(b) Allocation of contract price to performance obligations

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

(c) Revenue and profit recognition

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

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

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

Where the company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. The cost input is used as it best reflects the level of effort to satisfy the performance obligation.

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

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made. Any expected loss on a contract is recognised immediately in the income statement.

The company presents within contract assets the amount due from customers for contract work. This is based on costs incurred plus recognised profit (or less recognised losses), less progress billings and other amounts due to the customer. The company presents within contract liabilities amounts related to obligations to transfer goods or services to a customer for which the entity has received consideration (or the amount is due from the customer). In accordance with IFRS 15, contract assets and contract liabilities are offset when the amounts relate to the same rights and obligations in a contract with the same customer.

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

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

(f) Principal versus agent considerations

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

2 Summary of significant accounting policies *(continued)*

Intangible assets

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

a) 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.

b) *Computer software*
Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life.

Property, plant and equipment

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

Land	Not depreciated
Freehold property	2% to 8% straight line
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3% straight line

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

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial instruments

(i) Financial assets
Basic financial assets, including trade and other receivables, cash and bank balances and amounts owned by group undertakings, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income statement.

If there is decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the income statement.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities
Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. Such liabilities are subsequently carried at amortised cost using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

(iii) Offsetting
Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

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

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the 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 statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

Pensions costs and other post-retirement benefits

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

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

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

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

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

2 Summary of significant accounting policies *(continued)*

Foreign currencies

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

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

Lessee accounting

For all leases in which the company is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised.

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

Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases or low-value leases are expensed straight-line to the income statement as permitted by IFRS 16 'Leases'. A lease is considered short-term if the total lease length is less than 12 months, and low value if the underlying asset would cost less than £5,000 to buy new.

Provisions for liabilities

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

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

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities *(continued)*

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

Dividends

Dividends are recognised as a liability in the company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements judgements and estimates have been made in applying the company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

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

Critical accounting estimates in relation to these financial statements:

Revenue recognition – estimates of outturn revenues and costs

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 26 for the disclosures of the defined benefit pension scheme.

Impairment of investments in subsidiaries

The company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the company to estimate the value in use which is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. See note 14 for the disclosures of the carrying value of investments.

Critical accounting judgements in relation to these financial statements:

Revenue recognition – identification of performance obligations

Revenue recognition is initially dependant on identifying the number of specific performance obligations that exist within a contract. Judgement has been exercised in determining whether certain contracts that provide Repair and Maintenance services, as well as associated services to ensure the Customer has Asset Availability, should be treated as separately identifiable promises where each is accounted for as a separate performance obligation; or whether promises are not separately identifiable but rather part of an integrated service whereby this bundle of services represents a single performance obligation. With reference to both the commercial nature and the practical delivery of the contracts certain contracts have been assessed as having a single performance obligation. In such cases, the way in which the contract is structured and operates is such that these services are not provided individually, and additionally the customer has sought one single provider to integrate all of these aspects into the fully managed service that the company provides.

Revenue recognition – agent or principal

Revenue recognition is dependent on whether the company is assessed to be acting as a principal or agent in relation to the delivery of the specific performance obligations. The assessment is based on several factors including whether the company is primarily responsible for fulfilling the promise to provide the specified good or service, whether the company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer, and whether the company has discretion in establishing the price for the specified good or service. Specific consideration has been given to the following contracts which have involved a degree of judgement:

3 Critical accounting estimates and judgements *(continued)*

Revenue recognition – agent or principal *(continued)*

- Contracts where there is a contractual requirement to procure vehicles and equipment on behalf of the customer. In this case the company has been assessed to be acting as principal in the purchase of vehicles and equipment (with the associated revenue and costs treated gross). In such transactions the company has primary responsibility for this activity and hence this supports the treatment as principal. The basis for this conclusion is that the company has responsibility for ensuring that a vehicle or equipment is delivered that meets the specification for the contracted price and the company also bears the risk in the event that vehicles or equipment which have been procured from a Supplier and deemed to meet the required specification but are subsequently found to be defective by the Customer.

- Contracts where there is a contractual requirement to dispose of vehicles and equipment at the end of their lives on behalf of the customer. In this case the company has been assessed to be acting as an agent in the disposal of vehicles and equipment (with the associated revenue and costs treated net). The basis of this assessment is that where such disposals occur the purchasing party will have an understanding of the relationship between the company and the Customer, they understand that it is Customer's vehicle or equipment , and the Customer's decision to sell the vehicle or equipment and whether or not to accept the offer. Where these disposals occur, the company does not offer any warranty, and the company does not make any margin on the performance of this activity with all proceeds returned to the Customer.

Revenue recognition – timing of recognition

The timing of revenue recognition is dependent on whether the company transfers control of the good or service over time or at a point in time. Revenue is recognised over time if one of the following criteria is met; the customer simultaneously receives and consumes the benefits provided; the company's performance creates or enhances an asset the customer controls; or the company's performance does not create an asset with an alternative use to the company and the company has an enforceable right to payment.

Determination of whether revenue should be recognised over time or at a point in time can involve a degree of judgement and for certain performance obligations the company has concluded it is appropriate for revenue to be recognised at a point in time and for others it is appropriate for revenue to be recognised over time.

In addition, where contracts are assessed to contain variable revenue, consideration has been given as to whether this variable revenue should be recognised into a distinct time period or recognised over multiple time periods when applying the series guidance of IFRS 15. This determination involves a degree of judgement over whether the terms of a variable payment relate specifically to the entity's efforts to transfer a distinct good or service within a series. When it is determined that it relates to the transfer of good or service within a series, variable consideration will be allocated to the specific time period it relates to. Typically, where variable revenue relates to a specific event that occurs in a discrete time period (eg key performance indicator deductions), the revenue (or deductions to revenue) is recognised in that specific time period.

Notes to the financial statements *(continued)*

Provision of vessels under a financing arrangement

Under one of the company's contracts it provides certain dedicated vessels for use by the customer as well as ensuring the availability of these vessels by undertaking repair and maintenance services. Determination as to whether these vessels should be accounted for as finance or operating leases involves a degree of judgement. The company has concluded that the vessels should be accounted for as finance leases and as such the initial expenditure to purchase the vessels is treated as a financial asset with associated financial income. Consideration received from the customer has been allocated to the financing component of the contract so that the net Financial Asset at the conclusion of the contract is equivalent to the anticipated fair value of the vessels and finance income on the Financial Asset is recognised annually based on the average Financial Asset balance using an interest rate equivalent to a standalone third-party rate at contract inception. The remaining consideration is allocated to the non-lease component of the contract

4 Prior year restatement

The following tables show the effect on the 2020 income statement and balance sheet of the prior year restatement:

	2020 As previously stated	a) Historical tax, pension and interest adjustment and reclass of balances	b)Variable revenue adjustment	c)Provision of vessels under a financing agreement	d) Change in timing of revenue recognition of asset procurement services	e) MPS Fleet	**2020 Restated**
	£000	£000	£000	£000	£000	£000	**£000**
Revenue	**88,044**	-	(90)	(355)	(6,869)	-	**80,730**
Cost of sales	**(80,302)**	-	-	285	6,526	-	**(73,491)**
Gross profit	**7,742**	-	(90)	(70)	(343)	-	**7,239**
Administrative expenses	**(8,441)**	-	-	-	-	-	**(8,441)**
Other operating income	**181**	-	-	-	-	-	**181**
Amounts written off investments	**(13,482)**	-	-	-	-	-	**(13,482)**
Operating loss	**(14,000)**	-	(90)	(70)	(343)	-	**(14,503)**
Income from shares in group undertakings	**6,000**	-	-	-	-	-	**6,000**
Finance income	**428**	(412)	-	114	-	-	**130**
Finance expenses	**(870)**	-	-	-	-	-	**(870)**
Other finance income - pensions	**92**	-	-	-	-	-	**92**
Loss before taxation	**(8,350)**	(412)	(90)	44	(343)	-	**(9,151)**
Income tax expense	**(235)**	-	(47)	-	-	-	**(282)**
Loss for the financial year	**(8,585)**	(412)	(137)	44	(343)	-	**(9,433)**

Notes to the financial statements *(continued)*

4 Prior year restatement (continued)

Restatement of financial position

	2020 as previously stated £000	a) Historical tax, pension and interest adjustment and reclass of balances £000	b)Variable revenue adjustment £000	c) Provision of vessels under a financing agreement £000	d) Change in timing of revenue recognition of asset procurement services £000	e) MPS Fleet £000	2020 Restated £000
Fixed assets							
Intangible assets	**556**	-	-	-	-	-	**556**
Tangible fixed assets	**8,623**	-	-	(1,481)	-	-	**7,142**
Right-of-use assets	**8,418**	-	-	-	-	-	**8,418**
Investments	**19,848**	-	-	-	-	-	**19,848**
Pension asset	**7,829**	-	-	-	-	-	**7,829**
	45,274	-	-	(1,481)	-	-	**43,793**
Current assets							
Inventories	**1,661**	-	-	-		-	**1,661**
Trade and other receivables	**52,528**	23,410	(1,166)	1,610	8,593	(2,891)	**82,084**
Cash and cash equivalents	**11,658**	-	-	-	-	-	**11,658**
	65,847	23,616	(1,166)	1,610	8,593	(2,891)	**95,403**
Current liabilities							
Trade and other payables	**(94,519)**	(26,650)	-	-	(9,070)	2,891	**(127,348)**
Lease liabilities	**(948)**	(297)	-	-	-	-	**(1,245)**
Cash and cash equivalents	**-**	-	-	-	-	-	**-**
Net current liabilities	**(29,620)**	(3,240)	(1,166)	1,610	(477)	-	**(33,190)**
Total assets less current liabilities	**15,654**	(3,240)	(1,166)	129	(477)	-	**10,603**
Lease liabilities	**(7,903)**	297	-	-		-	**(7,606)**
Provisions for liabilities	**(1,856)**	-	221	-		-	**(1,635)**
Net (liabilities)/assets	**5,895**	(3,240)	(945)	129	(477)	-	**1,362**
Equity							
Called up share capital	**19,908**	-	-	-	-	-	**19,908**
Accumulated Losses	**(14,013)**	(3,240)	(945)	129	(477)	-	**(18,546)**
Total shareholders' funds	**5,895**	(3,240)	(945)	129	(477)	-	**1,362**

Notes to the financial statements *(continued)*

4 Prior year restatement (continued)

a) Historical tax, pension and interest adjustment and reclassification of balances (correction of error)

i) In previous years administrative expenses have been understated in relation to historical group pension costs balances which had incorrectly been debited to trade and other payables rather than being debited to administrative expenses and an adjustment had incorrectly continued to be posted to reverse a pension accrual which was no longer recognised. As a result of a contract consolidation review at year end the error was identified. The impact of the restatement on the prior year statement of financial position is to increase trade and other payables by £1,604,000 and brought forward accumulated losses by £1,604,000.

ii) Historical adjustments relating to tax had incorrectly been grossed up within trade and other receivables and trade and other payables instead of having been eliminated. The impact of the restatement on the prior year statement of financial position is to reduce trade and other receivables by £329,000, decrease trade and other payables by £342,000 and brought forward accumulated losses by £13,000.

iii) Intercompany debtors were reported in intercompany creditors in error. The impact of the restatement on the prior year statement of financial position is to increase trade and other receivables by £24,106,000 and increase trade and other payables by £24,106,000.

iv) The presentation of lease liabilities between current and non-current has been restated and the presentation of non-current lease liabilities between those due in more than one year but not more than five years and those due after five years (see note 19) has been restated due to errors identified in the previous calculations. Lease liabilities due within one year have increased by £297,000, lease liabilities due in more than one year, but not more than five years have decreased by £4,640,000 and lease liabilities due after five years have increased by £4,343,000.

v) IFRS 16 is applied as a separate adjustment to the underlying numbers. In applying IFRS 16, the timing difference between lease payments and the P&L charge recognised in the underlying numbers is required to be reversed out and included in the IFRS 16 lease liability (for example, a rent free period accrual recognised in the underlying numbers). The reversal of the timing difference of £366k was incorrectly recorded within trade and other receivables rather than being recorded within trade and other payables. The impact of the restatement on the prior year statement of financial position is to decrease trade and other receivables by £366,000 and decrease trade and other payables by £366,000.

vi) Intercompany loan interest was charged incorrectly, for a period of 4 years, on a loan which the company was not entitled to recognise interest income from, this has resulted in an intercompany balance to be repaid of £1,650,000. The impact of the restatement on the prior year statement of financial position is to decrease finance income by £412,000, increase trade and other payables by £1,650,000 and increase brought forward accumulated losses by £1,238,000.

vii) Also, in note 16 accrued income of £4,611,000 is now presented within contract assets instead of trade receivables as it is considered that this meets the definition of a contract asset under IFRS 15 rather than a trade receivable.

The total impact of the restatement on the prior year statement of financial position is to decrease finance income by £412,000, increase trade and other receivables by £23,410,000, increase trade and other payables by £26,650,000, increase current lease liabilities by £297,000, decrease non-current lease liabilities by £297,000 and brought forward accumulated losses by £2,828,000.

4 Prior year restatement (continued)

b) Variable revenue (change in accounting policy) - recognising variable revenue in a discrete time period

In previous years revenue has been recognised on certain contracts over time, based on the company satisfying the overall performance obligation on the same basis. However, after performing a detailed review of our revenue recognition accounting policies and the interpretation of series guidance under IFRS 15 it was determined that the company would change its policy such that certain variable consideration related to activity performed in specific time periods would be accounted for on such a basis (i.e. recognised at a point in time in the same time period as the activity performed, rather than being recognised over time).

As such, the prior year income statement has been re-stated with the net effect of decreasing revenue by £90,000 and decreasing the loss before tax by the same value and increased the tax charge by £47,000. The impact on the statement of financial position is a reduction in trade and other receivables of £1,166,000, decrease deferred tax liability by £221,000 and increase the brought forward accumulated losses by £808,000.

c) Provision of vessels under a financing arrangement (correction of error)

In previous years, on one of the company's contracts where it provides certain dedicated vessels for use by the customer, revenue was recognised over time based on the performance obligation for providing repair and maintenance services also being satisfied over time. However, after performing a detailed review of revenue recognition accounting policies under IFRS 15 it was identified that the company should not have been accounting for the vessels as fixed assets as, although it is the legal owner of the vessels, it did not have control of the vessels (as defined by IFRS 15) due to certain purchase options the customer has under the contract (see Note 3 Critical Accounting estimates and judgements). Instead, management has now determined that the provision of the vessels is in substance a financing arrangement whereby the company should recognise consideration received in relation to the financing of these vessels as a financial asset and recognise financial income in relation to this asset.

To enable this, it is necessary to allocate the overall consideration paid to the company between the satisfying of the performance obligation for providing repair and maintenance services and the financing of the vessels.

The impact of the restatement on the prior year income statement is to reduce revenue by £355,000, to reduce cost of sales by £285,000, and to increase finance income by £114,000. The impact on the statement of financial position is to reduce tangible fixed assets by £1,481,000, and to increase trade and other receivables by £1,610,000 and decrease the brought forward accumulated losses by £85,000.

d) Change in timing of revenue recognition of asset procurement services (correction of error)

In relation to certain asset procurement services performed on behalf of customers, revenue was previously being recognised over time based on certain payment milestones for work completed in accordance with the contract with the customer. However, as the criteria per paragraph 35 of IFRS 15 were not met, this revenue should have been recognised at the point in time that control of the assets is transferred to the customer, which is typically when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and Babcock has an enforceable right of payment. The impact of the restatement on the prior year income statement is to reduce revenue by £6,869,000 and to reduce cost of sales by £6,526,000.

Notes to the financial statements *(continued)*

4 Prior year restatement (continued)

d) Change in timing of revenue recognition of asset procurement services (correction of error) *(continued)*

The impact on the statement of financial position balance sheet is to increase trade and other receivables by £8,593,000, and to increase trade and other payables by £9,070,000 and increase the brought forward accumulated losses by £134,000.

e) MPS Fleet (correction of error)

In the prior year certain amounts payable to the customer were presented within trade and other payables in addition to amounts receivable from the customer presented within trade and other receivables. However, as these amounts fall under the scope of IFRS 15 Revenue Recognition these amounts should have been presented on a net basis on the statement of financial position within Trade and other receivables. The impact on the statement of financial position is to decrease trade and other receivables by £2,891,000, and to decrease trade and other payables by £2,891,000.

5 Revenue

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

	2021 £000	2020 Restated £000
By area of activity:		
Rendering of services	**74,670**	80,730
	74,670	80,730

All the revenue in the year ended 31 March 2021 and year ended 31 March 2020 originated in the United Kingdom.

6 Operating loss

Operating profit is stated after (crediting)/charging:

	2021 £000	2020 Restated £000
Gain on disposal of property, plant and equipment	**(3)**	(181)
Depreciation of property, plant and equipment (note 12)	**624**	482
Right-of-use asset depreciation (note 13)	**1,406**	1,143
Amortisation of intangible assets (note 11)	**184**	235
Inventory charged to income statement	**9,240**	8,587
Audit fees payable to the company's auditors	**35**	30

6 Operating loss *(continued)*

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

Amounts written off investments charged to the Income Statement was as follows:

	2021	2020
	£000	£000
Reduction in carrying value of investment in Babcock Vehicle Engineering Limited.	**(19,200)**	(13,482)
	(19,200)	(13,482)

7 Finance income and expenses

	2021	2020 Restated
	£000	£000
Finance income:		
Interest income on financial asset	**96**	114
Foreign exchange	**227**	16
	323	130

	2021	2020
Finance expenses:	**£000**	£000
Bank interest	**(107)**	(86)
Lease interest	**(415)**	(425)
Foreign exchange	**-**	(359)
	(522)	(870)

8 Staff costs

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

	2021	2020
	Number	Number
By activity:		
Operations	**475**	546
Management and administration	**24**	19
	499	565

8 Staff costs *(continued)*

Their aggregate remuneration comprised:

	2021	2020
	£000	£000
Wages and salaries	**19,914**	21,904
Social security costs	**2,046**	2,307
Other pension costs	**2,264**	1,743
	24,224	25,954

Included in other pension costs are £941,000 (2020: £613,000) in respect of the defined benefit schemes and £1,323,000 (2020: £1,130,000) in respect of the defined contribution scheme.

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

9 Directors' remuneration

During this year and the prior year none of the directors received any remuneration in respect of services to this company, as their services were considered incidental to their other services in the Group.

During this year and the prior year all of the directors of the company were remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the company and as such no disclosure of emoluments received by these directors has been made in these financial statements.

No recharge is made for costs borne by the company in relation to services performed by the directors in relation to other Babcock Group companies.

10 Income tax

Tax expense included in income statement

	2021 £000	2020 Restated £000
Current tax:		
UK Corporation tax on profits for the year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	**501**	209
Adjustment in respect of prior years	**(132)**	45
Impact of change in UK tax rate	-	28
Total deferred tax charge (note 21)	**369**	282
Total tax expense for the year	**369**	282

Tax (credit)/expense included in other comprehensive income

	2021 £'000	2020 Restated £'000
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	**(1,373)**	752
- Impact of change in UK tax rates	-	53
Tax (credit)/expense included in other comprehensive income	**(1,373)**	805

Notes to the financial statements *(continued)*

10 Income tax *(continued)*

Tax expense for the year is higher (2020: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 Restated £000
(Loss) before taxation	**(17,593)**	(9,151)
(Loss) multiplied by standard UK corporation tax rate of 19% (2020: 19%)	**(3,342)**	(1,739)
Effects of:		
Expenses not deductible for tax/income not chargeable to tax	**3,699**	1,490
Group relief for nil consideration	**144**	458
Adjustment in respect of prior years	**(132)**	45
Impact of change in UK tax rate	**-**	28
Total tax charge for the year	**369**	282

In 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements.

11 Intangible assets

	Computer Software £000	**Research and Development £000**	**Total £000**
Cost			
At 1 April 2020	1,222	841	2,063
Disposals	-	(841)	(841)
At 31 March 2021	**1,222**	**-**	**1,222**
Accumulated amortisation			
At 1 April 2020	(666)	(841)	(1,507)
Amortisation	(184)	-	(184)
Disposals	-	841	841
At 31 March 2021	**(850)**	**-**	**(850)**
Net book value			
At 31 March 2021	**372**	**-**	**372**
At 31 March 2020	556	-	556

Intangible assets amortisation is recorded in administrative expenses in the income statement.

Notes to the financial statements *(continued)*

12 Tangible fixed assets

	Land	Buildings & Leasehold Improvements	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2020 (previously stated)	2,773	3,089	11,247	17,109
Prior year adjustment	-	-	(3,421)	(3,421)
At 1 April 2020 (restated)	2,773	3,089	7,826	13,688
Additions	-	42	39	81
Disposals	-	(196)	(1,436)	(1,632)
At 31 March 2021	**2,773**	**2,935**	**6,429**	**12,137**
Accumulated depreciation				
At 1 April 2020 (previously stated)	-	(1,472)	(7,014)	(8,486)
Prior year adjustment	-	-	1,940	1,940
At 1 April 2020 (restated)	-	(1,472)	(5,074)	(6,546)
Charge for the year	-	(268)	(356)	(624)
Disposals	-	196	1,436	1,632
At 31 March 2021	**-**	**(1,544)**	**(3,994)**	**(5,538)**
Net book value				
At 31 March 2021	**2,773**	**1,391**	**2,435**	**6,599**
At 31 March 2020 (restated)	2,773	1,617	2,752	7,142

The net book value of leasehold improvements (from the Buildings and Leasehold Improvements classification above) comprises:

	2021	2020
	£000	£000
Long leasehold improvements	**1,020**	1,129
Net book value	**1,020**	1,129

Contractual commitments for property, plant and equipment at year end is £nil (2020: £nil).

Notes to the financial statements *(continued)*

13 Right-of-use assets

	Property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2020	8,134	1,360	9,494
Additions	112	86	198
Terminations	(65)	(104)	(169)
At 31 March 2021	**8,181**	**1,342**	**9,523**
Accumulated depreciation			
At 1 April 2020	(794)	(282)	(1,076)
Charge for the year	(910)	(496)	(1,406)
Terminations	-	90	90
At 31 March 2021	**(1,704)**	**(688)**	**(2,392)**
Net book value			
At 31 March 2021	**6,477**	**654**	**7,131**
At 31 March 2020	7,340	1,078	8,418

14 Investments

	2021 Shares in group undertakings £000	2020 Shares in group undertakings £000
Cost		
At 1 April	**19,848**	33,330
Impairments charged to the income statement	**(19,200)**	(13,482)
Carrying amount at 31 March	**648**	19,848

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

Details of the investments are outlined in note 27.

Notes to the financial statements *(continued)*

15 Inventories

	2021 £000	2020 £000
Finished goods and goods for resale	**1,861**	1,661
	1,861	1,661

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. Inventories are stated after provision for impairment of £266,931 (2020: £231,931).

16 Trade and other receivables

	2021 £000	2020 Restated £000
Amounts falling due within one year:		
Trade receivables	**3,169**	6,356
Finance asset	**850**	1,044
Contract assets	**7,782**	7,372
Amounts owed by group undertakings	**72,466**	57,699
Other receivables and prepayments	**3,704**	9,613
	87,971	82,084

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

Trade receivables are stated after expected credit losses of £nil (2020: £nil).

	Contract asset £'000
At 31 March 2020 (Restated)	7,372
Transfers from contract assets recognised at the beginning of the year to receivables	(7,372)
Increase due to work done not invoiced	7,782
At 31 March 2021	**7,782**

Notes to the financial statements *(continued)*

17 Cash and cash equivalents

The company is a member of a group-wide notional cash pool arrangement which allows individual accounts to become overdrawn, with a total gross overdue position allowed of £360m and a net overdue position allowed of £50m. The group performs an annual cash sweep process to settle all material (over 1 million in the relevant currency of the account) overdrawn accounts.

The company has five accounts within this cash pool arrangement and the net position on these accounts has been presented in the company's Statement of Financial Position as at 31 March 2020 as the company has the legal right and intention to net settle such accounts with no restrictions.

Although the cash sweep did not occur at the financial year end date in 2020, the cash sweep occurred soon after the financial year end and at the time the financial statements for the year ended 31 December 2020 were signed, it was the Directors intention for the cash sweep date to occur soon after the financial year end in the future (which had been the process in previous years).

The Directors therefore considered it was appropriate to present the net balance in the Statement of Financial Position in accordance with IAS 32 for year ended 31 March 2020, as it was their intent to net settle the financial year end balances. As at 31 March 2021, there was no annual cash sweep process, due to a project to change banking providers and move towards daily cash sweeps which was not completed until after the year ended 31 March 2021. The 31 March 2021 balances have been disclosed on a gross basis as there was no intent to net settle such accounts.

	2021	**2020**
	£'000	**£'000**
Cash at bank and in hand	**5,219**	18,329
Bank overdraft	**(949)**	(6,671)
Cash and cash equivalents	**4,270**	11,658

18 Trade and other payables

	2021	2020 Restated
	£000	£000
Amounts falling due within one year:		
Trade payables	**3,291**	5,597
Amounts owed to parent and group undertakings	**110,906**	104,344
Other taxation and social security	**2,740**	1,181
UK corporation tax payable	**56**	56
Accruals	**3,814**	6,213
Contract liabilities	**4,085**	9,957
	124,892	127,348

Amounts owed to parent and group undertakings are unsecured, interest free, 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 24).

Notes to the financial statements *(continued)*

18 Trade and other payables *(continued)*

	Contract liabilities £'000
At 31 March 2020	9,957
Revenue recognised that was included in contract liabilities at the beginning of the year	(5,872)
At 31 March 2021	**4,085**

19 Lease liabilities

The entity leases various premises under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases. Discounted future minimum lease payments are as follows:

	2021 £'000	2020 Restated £'000
Within one year	**1,136**	1,245
In more than one year, but not more than five years	**2,662**	3,263
After five years	**3,904**	4,343
Carrying value of liability	**7,702**	8,851

The weighted average incremental borrowing rate applied to the lease liabilities at the date of transition was 4.800%. The company had total cash outflows for leases of £1,654,000 (2020: £1,501,000) and interest expense on lease liabilities of £415,000 (2020: £425,000) for the year ended 31 March 2021.

The following are the amounts recognised in profit or loss:

	2021 £'000	2020 £'000
Expense relating to short-term leases	**83**	107
Expense relating to leases of low-value assets	**18**	31
	101	138

20 Provisions for liabilities

	Dilapidations provision £000	Deferred taxation £000	Total £000
At 1 April 2020	**174**	**1,682**	**1,856**
Prior year adjustment	-	(221)	(221)
At 1 April 2020 - restated	**174**	**1,461**	**1,635**
Charged/(credited) to the income statement	(156)	369	213
(Credited)/charged to other comprehensive income	-	(1,373)	(1,373)
At 31 March 2021	**18**	**457**	**475**

Dilapidation provisions

Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

21 Deferred taxation

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

Deferred tax liabilities	**Pension asset £000**	**Accelerated capital allowances £000**	**Other £000**	**Total £000**
At 1 April 2019:	**447**	**195**	**-**	**642**
- Prior year adjustment			**(268)**	(268)
At 1 April 2019 - restated:	**447**	**195**	**(268)**	**374**
- Charged to the income statement	235	-	**47**	282
- Charged to other comprehensive income	805	-	-	805
At 31 March 2020:	**1,487**	**195**	**(221)**	**1,461**
- Charged to the income statement	221	(65)	213	369
- (Credited) to other comprehensive income	(1,373)	-	-	(1,373)
At 31 March 2021:	**335**	**130**	**(8)**	**457**

22 Called up Share capital

	2021 £000	2020 £000
Allotted and fully paid		
19,908,300 ordinary shares of £1 each (2020: 19,908,300)	**19,908**	19,908

23 Dividends

Dividends declared and paid were £nil (2020: £nil), this is equivalent to £nil per share (2020: £nil). There are no plans for a final dividend. Dividends received were £nil (2020: £nil).

24 Contingent liabilities

At the year end the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2020: £nil) provided to certain group companies. In addition, the company at the year-end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil million (2020: £nil million).

No securities have been provided by the company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystalise.

25 Related party disclosures

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

26 Pension commitments

The company accounts for pension costs in accordance with IAS 19. The company contributes to a defined contribution scheme in the UK in respect of a number of its employees, at a cost of £1,323,000 (2020: £1,130,000). The company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

26 Pension commitments *(continued)*

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

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

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2021 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2020. The major assumptions used for the IAS 19 valuation were:

	2021	2020	2019
Major assumptions	**%**	%	%
Rate of increase in salaries	**2.9**	2.0	2.3
Rate of increase in pension payment	**3.1**	2.6	3.0
Discount rate	**2.0**	2.4	2.4
Inflation	**2.7**	1.7	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2021/22 are £33.5m. The future service rate is 51.1%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £33.5m is £22.9m of deficit recovery payments. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2021	2020	2019
	Years	Years	Years
Life expectancy from age 65 (male age 65)	**22.1**	22.1	21.7
Life expectancy from age 65 (male age 45)	**22.7**	22.7	22.7

26 Pension commitments *(continued)*

The changes to the Babcock International Group Plc statement of financial position at 31 March 2021 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2021, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £000	**Income statement 2021 £000**
Initial assumptions	**1,421,689**	**6,493**
Discount rate assumptions increased by 0.5%	(96,533)	(3,265)
Discount rate assumptions decreased by 0.5%	96,533	2,289
Inflation rate assumptions increased by 0.5%	57,721	1,819
Inflation rate assumptions decreased by 0.5%	(52,887)	(1,648)
Total life expectancy increased by half a year	32,841	762
Total life expectancy decreased by half a year	(32,841)	(762)
Salary increase assumptions increased by 0.5%	7,677	455
Salary increase assumptions decreased by 0.5%	(7,677)	(455)

The weighted average duration of cash flows (years) was 15.

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2021 were:

Fair value of plan assets	**2021 £'000**	2020 £'000
Equities	**(79)**	17,851
Property	**138,681**	136,091
Absolute return and multi strategy funds	**77,583**	87,564
Bonds	**724,997**	588,848
Matching assets	**551,788**	622,665
Scheme assets	**1,492,970**	1,453,019
Active position on longevity swaps	**(53,800)**	(65,642)
Total assets	**1,439,170**	1,387,377
Present market value of liabilities - funded	**(1,421,689)**	(1,276,793)
Pension surplus	**17,481**	110,584

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

The longevity swaps have been valued, in 2021, in line with assumptions that are consistent with the requirements of IFRS 13.

The equity investments and bonds are valued at bid price.

26 Pension commitments *(continued)*

The scheme does not invest directly in assets or shares of Babcock International Group Plc.

Analysis of amount charged to the income statement in Babcock International Group Plc	**2021 £000**	2020 £000
Current service cost	**5,741**	6,693
Incurred expenses	**2,596**	1,970
Past service cost	**999**	-
Settlement	**-**	-
Total included within operating profit	**9,336**	8,663
Net interest income	**(2,843)**	(1,300)
Total charged to the income statement	**6,493**	7,363

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £941,000 for service cost and incurred expenses (2020: £613,000), and net interest income of £287,000 (2020: net interest income of £92,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2021 £000**	2020 £000
Actuarial gain/(loss)recognised in the SOCI	**(117,988)**	56,807
Experience (loss)/gain	**(9,021)**	(6,371)
Other losses	**13,418**	(4,088)
	(113,591)	46,348

The actuarial loss recognised in the Statement of Comprehensive Income in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £7,227,000 (2020: gain of £3,959,000).

Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc	**2021 £000**	2020 £000
At 1 April	**1,387,377**	1,408,864
Interest income	**32,668**	32,902
Employee contributions	**99**	140
Employer contributions	**26,981**	21,874
Benefits paid	**(80,924)**	(80,602)
Settlement	**-**	-
Actuarial gain	**72,969**	4,199
At 31 March	**1,439,170**	1,387,377

26 Pension commitments *(continued)*

	2021	2020
	£000	£000
Reconciliation of present value of scheme liabilities in Babcock International Group plc		
At 1 April	**1,276,793**	1,359,140
Service cost	**5,741**	6,693
Incurred expenses	**2,596**	1,970
Interest on liabilities	**29,825**	31,602
Employee contributions	**99**	140
Actuarial loss/(gain) – demographics	**11,371**	6,350
Actuarial (gain)/loss – financial	**166,168**	(54,871)
Experience losses/(gains)	**9,021**	6,371
Benefits paid	**(80,924)**	(80,602)
Settlement	**999**	-
Past service cost	**-**	-
At 31 March	**1,421,689**	1,276,793

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £1,763,000 (2020: asset of £7,829,000).

27 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the company are as listed below:

Company Name	**Country**	**Direct %**	**Ultimate%**
Babcock Vehicle Engineering Limited	England	100.0%	100.0%
Transfleet Distribution Limited	England	100.0%	100.0%

Related undertakings dissolved during year ending 31 March 2021

Company Name	**Country**	**Direct %**	**Ultimate%**	**Dissolved**
Chart Services Limited	England	100.0%	100.0%	16 Mar 2021
Transfleet Truck Rentals Limited	England	100.0%	100.0%	22 September 2020
Chart Distribution Services Limited	England	0%	100.0%	29 December 2020
Municipal Vehicle Hire Limited	England	0%	100.0%	22 September 2020
Chart Storage & Transportation Limited	England	100.0%	100.0%	16 March 2021

Notes to the financial statements *(continued)*

27 Subsidiary, associate and Joint Venture undertakings *(continued)*

The registered office of all undertakings with the exception of Chart Services Limited is 33 Wigmore Street, London, W1U 1QX, England. The registered office of Chart Services Limited is Dwf Llp, 110 Queen Street, Glasgow, Scotland. All subsidiary undertakings are incorporated and operate in the United Kingdom.

28 Ultimate parent undertaking

The company's immediate parent company is Babcock Critical Assets Holdings LLP, a limited liability partnership registered in England and Wales. The company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX