

**Babcock Marine (Clyde) Limited**

**Annual report**

**For the year ended 31 March 2020**

**Company registration number:**

**SC220243**



# **Babcock Marine (Clyde) Limited**

## **Directors and advisors**

### **Current directors**

S Bowen  
L Brown  
K Douglas  
I S Urquhart

### **Company secretary**

Babcock Corporate Secretaries Limited.

### **Registered office**

Rosyth Business Park  
Rosyth  
Dunfermline  
Fife  
KY11 2YD

### **Independent auditors**

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

## Babcock Marine (Clyde) Limited

### Strategic report for the year ended 31 March 2020

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

#### Principal activities

The principal activity of the Company is the provision of services to the Ministry of Defence (MoD) in its operation of Her Majesty's Naval Base Clyde (HMNB Clyde). HMNB Clyde is the Home of the UK Submarine Service and is the Submarine Centre of Specialisation (SMCoS) in the UK.

#### Review of the business

	<b>2020</b>	2019
	<b>£000</b>	£000
Revenue	<b>178,005</b>	161,028
Profit for the financial year	<b>7,306</b>	8,512
Net Assets	<b>6,742</b>	7,445

The Company is part of the Nuclear Sector of Babcock International Group PLC ("Babcock") and has continued to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's fleet availability programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MoD enterprise whilst ensuring that important naval design, build and support capabilities are retained. The MoD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully. The committed levels of cost benefits to MoD on allocated contracts have been delivered and overall cost and service level performance has met or exceeded requirements.

The delivery contract for the Company to deliver ToBA benefits to MoD up to 30 September 2014 was the Waterfront Support Modernisation Initiative ("WSMI") which was replaced by the Maritime Support Delivery Framework ("MSDF") contract which ran from 1 October 2014 to 31 March 2020. The MSDF contract included significant additional cost reductions above those committed under the ToBA. The Company delivered more than the savings required and this achievement along with the Company's view on the risk on outstanding change agreement is what determines the profitability for the period.

The Strategic Weapons Support (SWS) Alliance with Lockheed and AWE, which was set up as a result of transferring specialist activities from MoD to industry (operating out of Coulport), has completed its sixth full year of operation successfully with committed cost reductions being delivered whilst maintaining the contracted level of service.

In respect of health and safety in the year to March 2020, the Company saw an increase in the number of RIDDOR reportable incidents at HMNB Clyde over the previous year's figure from 7 to 10. The overall number of injury accidents also increased from 94 to 110. The Company continued to proactively engage with the workforce through our Incident & Injury Free Programme. In addition, closer collaboration with the other Babcock Sector Business Units at Devonport, Rosyth and Bristol is helping to generate best practice resulting in improved Safety Management Arrangements at Clyde.

## **Babcock Marine (Clyde) Limited**

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

#### **Review of the business (continued)**

##### **Principal risks and uncertainties**

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

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, and including the expected impact of Covid-19, is provided on pages 80 to 92 of the annual report of Babcock International Group PLC, which does not form part of this report.

##### **Future developments**

After a successful MSDF contract period to 31 March 2020, the company has agreed with the MoD an interim arrangement in which to continue the activities at HMNB Clyde to 31 March 2021. During this one year period we will continue to develop initiatives which reduce cost and increase availability of customers Assets. In addition we will work with the MoD to agree the follow on contract to MSDF, which the MoD have named Future Maritime Support Programme (FMSP) and will be delivered under the ToBA framework. This next operative contract is to be in place by the 1<sup>st</sup> of April 2021.

The Company continues to explore business growth in other areas of activity at HMNB Clyde within the ToBA contractual framework.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MoD.

Challenging objectives have been set for the year ahead for health and safety to align with the Babcock International Group Plc and Nuclear Sector strategies.

With Covid-19 pandemic occurring late in the year, this had negligible effect in the outturn of the period and due to the ongoing delivery of our contractual deliverables to MoD, with the necessary precautions in place, we expect the impact of the pandemic to be limited.

##### **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 Nuclear, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 72 to 73 of the annual report of Babcock International Group PLC, which does not form part of this report.

## Babcock Marine (Clyde) Limited

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

#### Key performance indicators (continued)

	2019 / 20	2018 / 19	
Revenue Growth	10.54%	3.69%	Change in revenue when compared to that of the previous year. In 2019/20, revenue increased. This increase is due to our MSDF contract reflecting greater infrastructure & water front activity in support of the customer's ever increasing Fleet & Estates Works Programmes.
Operating Return on Revenue (ORR)	5.15%	6.52%	Operating profit expressed as a percentage of revenue. Margin percentage has decreased from the previous year due to growth in the contract.
Order Book	£516m	£649m	Includes total value of signed contracts and prudent estimate of value of framework contracts. Order book down on previous year due to value of revenue traded during the year.
Total injuries rate per 100,000 hours worked	2.48	2.44	Health and Safety is a core value for the Company. The data includes all reported injuries. There has been a slight increase in our overall incidents compared to the previous year, our RIDDOR reportable incidents are also up on the previous year.
Number of apprentices	47	39	The level of apprentice intake reflects the forecast future programme of work recognising the current demographics of the workforce. This has been maintained Year on Year.

On behalf of the board



**L Brown**

**Director**

**29 July 2020**

## **Babcock Marine (Clyde) Limited**

### **Directors' report for the year ended 31 March 2020**

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

#### **Dividends**

An interim dividend of £10,000,000 representing £10,000,000 per ordinary share was declared and paid in the year (2019: £7,498,000). No final dividend for the year ended 31 March 2020 has been provided by the directors (2019: £nil).

#### **Future developments**

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

#### **Financial risk management**

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 65 to 67 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

#### **Directors**

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

L Brown  
S Bowen (appointed 15 November 2019)  
K Douglas (appointed 17 March 2020)  
J W Howie (resigned 15 November 2019)  
G Leckie (resigned 17 March 2020)  
I S Urquhart

#### **Employment of disabled persons**

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

#### **Employee involvement**

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

## **Babcock Marine (Clyde) Limited**

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

#### **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.

#### **Environment**

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

#### **Statement of directors' responsibilities**

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

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

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

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

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

## **Babcock Marine (Clyde) Limited**

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

#### **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.

#### **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 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

#### **Statement of disclosure of information to auditors**

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

On behalf of the board



L Brown

**Director**

**29 July 2020**

## **Babcock Marine (Clyde) Limited**

### **Independent auditors' report to the members of Babcock Marine (Clyde) Limited**

#### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion, Babcock Marine (Clyde) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework"; and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report which comprise: the balance sheet as at 31 March 2020; the income statement, the statement of comprehensive income 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**

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

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

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

## **Babcock Marine (Clyde) Limited**

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

#### **Reporting on other information**

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

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

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

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

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

## **Babcock Marine (Clyde) Limited**

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

#### **Responsibilities for the financial statements and the audit**

##### **Responsibilities of the directors for the financial statements**

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

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

##### **Auditors' responsibilities for the audit of the financial statements**

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

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

##### **Use of this report**

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

## **Babcock Marine (Clyde) Limited**

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

#### **Other required reporting**

#### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
29 July 2020

## Babcock Marine (Clyde) Limited

### Income statement

for the year ended 31 March 2020

	Note	2020 £000	2019 £000
<b>Revenue</b>	4	<b>178,005</b>	161,028
Cost of sales		<u>(165,558)</u>	<u>(147,922)</u>
<b>Gross profit</b>		<b>12,447</b>	13,106
Administration expenses		<b>(3,284)</b>	(2,606)
<b>Operating profit</b>	6	<b>9,163</b>	10,500
<b>Profit before interest</b>		<b>9,163</b>	10,500
Finance income	5	77	76
Finance costs	5	<b>(46)</b>	(97)
Other finance costs - pensions	19	<b>43</b>	38
<b>Profit before taxation</b>		<b>9,237</b>	10,517
Income tax expense	10	<u><b>(1,931)</b></u>	<u>(2,005)</u>
<b>Profit for the financial year</b>		<u><b>7,306</b></u>	<u>8,512</u>

All of the above results derive from continuing operations.

### Statement of comprehensive Income

for the year ended 31 March 2020

	Note	2020 £000	2019 £000
<b>Profit for the financial year</b>		<u><b>7,306</b></u>	<u>8,512</u>
<b>Other comprehensive income (expense):</b> <i>Items that will not be subsequently reclassified to income statement:</i>			
Gain / (loss) on re-measurement of net defined benefit obligation	19	<b>2,502</b>	(455)
Tax on net defined benefit obligation		<u><b>(511)</b></u>	75
<b>Total comprehensive income for the year</b>		<u><b>9,297</b></u>	<u>8,132</u>

## Babcock Marine (Clyde) Limited

### Balance sheet

as at 31 March 2020

	Note	2020 £000	2019 £000
<b>Current assets</b>			
Inventories	11	134	165
Trade and other receivables	12	28,833	38,339
Cash and cash equivalents		35,002	20,365
		<u>63,969</u>	<u>58,869</u>
Trade and other payables	13	(61,496)	(52,547)
<b>Net current assets</b>		<u>2,473</u>	<u>6,322</u>
Gross pension assets	19	4,269	1,123
<b>Net assets</b>		<u>6,742</u>	<u>7,445</u>
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Retained earnings		6,742	7,445
<b>Total shareholders' funds</b>		<u>6,742</u>	<u>7,445</u>

The notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements on pages 12 to 38 were approved by the board of directors on xx and signed on its behalf by:



L Brown  
Director  
29 July 2020

## Babcock Marine (Clyde) Limited

### Statement of changes in equity

	Note	Called up share capital £000	Retained earnings £000	Total shareholders' funds £000
<b>Balance at 1 April 2018</b>		-	6,811	<b>6,811</b>
Profit for the financial year		-	8,512	<b>8,512</b>
Other comprehensive expense		-	(380)	<b>(380)</b>
<b>Total comprehensive income</b>			8,132	<b>8,132</b>
Dividends paid	16	-	(7,498)	<b>(7,498)</b>
<b>Balance at 31 March 2019</b>		-	<b>7,445</b>	<b>7,445</b>
Profit for the financial year		-	7,306	<b>7,306</b>
Other comprehensive income		-	1,991	<b>1,991</b>
<b>Total comprehensive income</b>			9,297	<b>9,297</b>
Dividends paid	16	-	(10,000)	<b>(10,000)</b>
<b>Balance at 31 March 2020</b>		-	<b>6,742</b>	<b>6,742</b>

*for the year ended 31 March 2020*

# **Babcock Marine (Clyde) Limited**

## **Notes to the financial statements**

### **1 General information**

Babcock Marine (Clyde) Limited is a private company limited by shares which is incorporated and domiciled in the Scotland. The address of the registered Office is Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD.

### **2 Summary of significant accounting policies**

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements.

#### **Basis of preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, in accordance with the Companies Act 2006 as applicable to companies using FRS 101. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

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

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements** *(continued)*

#### **2 Summary of significant accounting policies** *(continued)*

- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- j) 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.

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

#### **Adoption of new and revised standards**

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

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

Due to the value of leases being immaterial, the adoption of IFRS 16 has had no impact in the year.

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements (continued)**

#### **2 Summary of significant accounting policies (continued)**

##### **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.

##### **(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.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 2 Summary of significant accounting policies (continued)

##### Revenue

###### (c) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the

Company determines, for each performance obligation, whether it is satisfied over time or at a point in time. Performance obligations are satisfied over time if any of the following criteria are satisfied:

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

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

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. 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 by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group management. Assessment of outcomes are in relation to separate performance obligations and include variable consideration, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

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

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

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements (continued)**

#### **2 Summary of significant accounting policies (continued)**

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

for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

##### **Trade receivables**

##### **Contract accounting balances**

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

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

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

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

##### **Inventory and work in progress**

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

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

##### **Share based payments**

The Group operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

##### **Taxation**

##### **(a) Current income tax**

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

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements (continued)**

#### **2 Summary of significant accounting policies (continued)**

##### **Taxation**

###### **(b) Deferred income tax**

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

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

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

##### **Pensions costs and other post-retirement benefits**

The Company participates in a defined 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.

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

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

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

##### **Foreign currencies**

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

# Babcock Marine (Clyde) Limited

## Notes to the financial statements (continued)

### 2 Summary of significant accounting policies (continued)

#### Foreign currencies

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

#### Operating leases

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

### 3 Critical accounting estimates and judgements

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

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

#### Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the disclosures of the defined benefit pension scheme.

#### Contract accounting

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

### 4 Revenue

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

	2020 £000	2019 £000
By area of activity:		
Provision of services – transferred over time	174,314	157,865
Sale of goods – transferred at a point in time	3,691	3,163
	<u>178,005</u>	<u>161,028</u>

All the revenue originated in the United Kingdom.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 5 Finance income and costs

	2020 £000	2019 £000
<b>Finance income:</b>		
Loan interest receivable from group undertakings	77	76
	<u>77</u>	<u>76</u>
<b>Finance costs:</b>		
Bank and other interest	(46)	(97)
	<u>(46)</u>	<u>(97)</u>

#### 6 Operating profit

Operating profit is stated after charging:

	2020 £000	2019 £000
Operating lease charges - Other	-	28
Audit fees payable to the Company's auditors	35	35

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.

#### 7 Staff costs

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

	2020 Number	2019 Number
<b>By activity:</b>		
Production	<u>1,527</u>	<u>1,539</u>

Their aggregate remuneration comprised:

	2020 £000	2019 £000
Wages and salaries	65,690	64,953
Social security costs	7,120	7,045
Other pension costs (note 19)	8,610	7,257
	<u>81,420</u>	<u>79,255</u>

## **Babcock Marine (Clyde) Limited**

### **Notes to the financial statements (continued)**

#### **7 Staff costs (continued)**

Included in wages and salaries is a total expense of share-based payments of £8,000 (2019: £3,000) of which £8,000 (2019: £3,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £374,000 (2019: £781,000) in respect of the defined benefit schemes and £8,236,000 (2019: £6,476,000) 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.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 8 Directors' remuneration

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

	2020	2019
	£000	£000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	314	274
Defined contribution pension scheme	10	13
	<u>324</u>	<u>287</u>

During the year two (2019: four) directors remunerated by Babcock Marine (Clyde) Limited were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to four directors (2019: four) under Group pension schemes.

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

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

	2020	2019
	£000	£000
Emoluments (excluding pension contributions)	166	109
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	-	-

No share options exercised in the year.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 9 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Babcock Marine (Clyde) Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts.

During the year the total charge relating to employee share-based payment plans was £8,000 (2019: £3,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £6,000 (2019: £2,000).

The fair value per option granted and the assumptions used in the calculation are as follows:

#### DBMP, PSPs, DBP and CSOP<sub>1</sub>

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2019 PSP	1,370,671	472.8	11.0%	6.0	-	70.9	472.8	45%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	-	70.9	472.8	45%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100%	-	472.8	45%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100%	-	472.8	45%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	-	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	-	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	-	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	-	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	-	132.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	-	132.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	-	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	-	905.5	46%	14/06/17

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 104,756 matching shares (2019: 92,722 matching shares) at a cost of £0.5million (2019: £0.6million).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 10 Income tax expense

##### Tax expense included in income statement

	2020 £000	2019 £000
<b>Current tax:</b>		
UK Corporation tax on profits for the year	1,631	2,067
<b>Current tax charge for the year</b>	<b>1,631</b>	<b>2,067</b>
<b>Deferred tax:</b>		
Origination and reversal of temporary differences	124	(66)
Prior year adjustments	176	-
Impact of change in UK tax rate	-	4
<b>Total deferred tax credit (note 14)</b>	<b>300</b>	<b>(62)</b>
<b>Tax on profit</b>	<b>1,931</b>	<b>2,005</b>

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

	2020 £000	2019 £000
Current tax		
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	489	(87)
- Impact of change in tax rates	22	12
<b>Tax expense / (income) included in other comprehensive income</b>	<b>511</b>	<b>(75)</b>

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

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 10 Income tax expense (continued)

	2020 £000	2019 £000
<b>Profit before taxation</b>	<b>9,237</b>	<b>10,517</b>
Profit before taxation multiplied by standard UK corporation tax rate of 19% (2019: 19%)	1,755	1,998
Effects of:		
Impact of change in UK tax rate		
Expenses not deductible for tax purposes	-	1
Adjustments in respect of deferred tax for prior years	176	6
<b>Total tax charge for the year</b>	<b>1,931</b>	<b>2,005</b>

In the UK 2019 Budget, it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal.

#### 11 Inventories

	2020 £000	2019 £000
Finished goods and goods for resale	134	165

#### 12 Trade and other receivables

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	444	1,503
Amounts due from customers for contract work	3,645	11,179
Amounts owed by group undertakings	22,056	22,661
Other receivables	2,152	2,397
Prepayments and accrued income	536	599
	<b>28,833</b>	<b>38,339</b>

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

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 12 Trade and other receivables (continued)

	Amounts due for contract work £000	Accrued Income £000	Total £000
<b>31 March 2019</b>	11,179	353	11,532
Transfers from contract assets recognised at the beginning of the year to receivables	(9,416)	(353)	(9,769)
Increase due to work done not yet billed	1,882	283	2,165
<b>At 31 March 2020</b>	<b>3,645</b>	<b>283</b>	<b>3,928</b>

#### 13 Trade and other payables

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	16,628	12,005
Amounts owed to parent and group undertakings	6,901	8,740
Taxation and social security	1,791	1,957
UK corporation tax payable	13,533	11,902
Deferred tax (Note 14)	823	12
Payments received on account	730	302
Other payables	2,762	2,465
Accruals and deferred income	18,328	15,164
	<b>61,496</b>	<b>52,547</b>

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 18).

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 13 Trade and other payables (continued)

	Contract cost accruals £000	Advance payments £000	Total £000
<b>At 1 April 2019</b>	14,210	302	14,512
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(302)	(302)
Increase due to cash received, excluding amounts recognised as revenue	-	730	730
Amounts accrued	15,658	-	15,658
Amounts utilised	(14,210)	-	(14,210)
<b>At 31 March 2020</b>	<b>15,658</b>	<b>730</b>	<b>16,388</b>

#### 14 Deferred taxation

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

Deferred tax assets/(liabilities)	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2019:	1	(13)	(12)
- Charged to the income statement		(300)	(300)
- Charged to other comprehensive income		(511)	(511)
At 31 March 2020:	1	(824)	(823)

#### 15 Called up Share capital

	2020 £	2019 £
<b>Allotted and fully paid</b>		
1 (2019: 1) ordinary shares of £1 each	1	1

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 16 Dividends

Dividends declared and paid were £10,000,000 (2019: £7,498,000), this is equivalent to £10,000,000 per share (2019: £7,498,000). There are no plans for a final dividend.

#### 17 Guarantees and financial commitments

##### a) Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2019: £nil) provided to certain group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2019: £nil).

##### b) Operating lease commitments

At 31 March 2020, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2020 Land and buildings £000	2020 Other £000	2019 Land and buildings £000	2019 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	-	-	24	4
- between two and five years	-	-	-	7
	-	-	24	11

The company is exempt from IFRS 16 due to the leases expiring within one year.

#### 18 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.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees. The Company is also a contributing employer to defined benefit schemes (the "Babcock International Group Pension Scheme" and "Rosyth Royal Dockyard Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of these schemes. 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. These schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

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

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

#### BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2020 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2013. The major assumptions used for the IAS 19 valuation were:

	2020	2019
	%	%
<b>Major assumptions</b>		
Rate of increase in salaries	2.0	2.3
Rate of increase in pension payment	2.6	3.0
Discount rate	2.4	2.4
Inflation	1.7	2.1

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

The expected total employer contributions to be made by participating employers to the scheme in 2020/20 are £21.7m. The future service rate is 29.9%. 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 £21.7m is £8.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

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

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

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

The weighted average duration of cashflows (years) was 15

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2020 were:

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

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

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

The longevity swaps have been valued, in 2020, in line with assumptions that are consistent with the requirements of IFRS 13.

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £358k for service cost (2019: £763k) and net interest credit of £54k (2019: £46k).

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

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

The actuarial credit recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £2,417k (2019: cost £377k).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	2020 £000	2019 £000
At 1 April	1,468,976	1,490,978
Interest cost	34,345	37,789
Employee contributions	140	272
Employer contributions	21,874	23,010
Benefits paid	(80,602)	(102,320)
Settlement	-	(2,761)
Actuarial gain	8,286	22,007
At 31 March	<u>1,453,019</u>	<u>1,468,975</u>

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

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

The asset 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 £4,567k (2019: £1,491k).

#### Rosyth Pension scheme

The IAS 19 valuation has been updated at 31 March 2020 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2015. The major assumptions used for the IAS 19 valuation were:

	2020 %	2019 %
<b>Major assumptions</b>		
Rate of increase in salaries	1.9	2.3
Rate of increase in pension payment	2.7	3.3
Discount rate	2.6	2.4
Inflation	2.7	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2020/21 are £29.7m. The future service rate is 24.0%. 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 £29.7m is £17.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2020 Years	2019 Years
Life expectancy from age 65 (male age 65)	19.8	19.7
Life expectancy from age 65 (male age 45)	20.9	20.7

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

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

	Defined benefit obligations 2020 £000	Income statement 2020 £000
Initial assumptions	904,973	8,069
Discount rate assumptions increased by 0.5%	(74,030)	(2,185)
Discount rate assumptions decreased by 0.5%	74,027	1,435
Inflation rate assumptions increased by 0.5%	64,525	1,827
Inflation rate assumptions decreased by 0.5%	(58,461)	(1,705)
Total life expectancy increased by half a year	19,638	551
Total life expectancy decreased by half a year	(19,638)	(551)
Salary increase assumptions increased by 0.5%	3,801	139
Salary increase assumptions decreased by 0.5%	(3,801)	(139)

The weighted average duration of cashflows (years) is 18.

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2020 were:

Fair value of plan assets	2020 £'000	2019 £'000
Equities	5,799	269,450
Property	80,166	62,218
Absolute return and multi strategy funds	127,291	43,008
Bonds	226,278	157,683
Matching assets	411,250	357,179
Active position on longevity swaps	(57,567)	(57,108)
Total assets	793,217	832,430
Present market value of liabilities - funded	(904,973)	(1,009,502)
<b>Gross pension (deficit)</b>	<b>(111,756)</b>	<b>(177,072)</b>

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

The scheme does not invest directly in assets or shares of Babcock International Group Plc. The longevity swaps have been valued, in 2020, in line with assumptions that are consistent with the requirements of IFRS 13.

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

The longevity swaps have been valued, in 2020, in line with assumptions that are consistent with the requirements of IFRS 13.

<b>Analysis of amount charged to the income statement in Babcock International Group Plc</b>	<b>2020 £000</b>	<b>2019 £000</b>
Current service cost	5,480	5,949
Incurred expenses	535	549
Total included within operating profit	6,015	6,498
Net interest cost	4,144	3,832
<b>Total charged to the income statement</b>	<b>10,159</b>	<b>10,330</b>

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 £16k for service cost (2019: £18k) and net interest cost of £11k (2019: £8k).

<b>Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")</b>	<b>2020 £000</b>	<b>2019 £000</b>
Actuarial gain / (loss) recognised in the SOCl	65,781	(44,823)
Experience losses	(8,767)	(23,950)
(Loss) / gain on assets	(10,878)	33,277
Other gains	911	10,951
	<b>47,047</b>	<b>(24,545)</b>

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £85k (2019 loss: £78k).

The equity investments and bonds are valued at bid price.

	<b>2020 £000</b>	<b>2019 £000</b>
<b>Reconciliation of present value of scheme assets in Babcock International Group Plc</b>		
At 1 April	889,537	927,164
Interest on assets	20,202	23,665
Employer contributions	28,428	18,309
Employee contributions	6	17
Benefits paid	(76,511)	(112,894)
Actuarial (loss) / gain	(10,878)	33,276
At 31 March	<b>850,784</b>	<b>889,537</b>

## Babcock Marine (Clyde) Limited

### Notes to the financial statements (continued)

#### 19 Pension commitments (continued)

	2020 £000	2019 £000
<b>Reconciliation of present value of scheme liabilities</b>		
At 1 April	1,009,502	1,019,307
Service cost	5,480	5,949
Incurred expenses	535	549
Interest on liabilities	22,975	25,786
Employee contributions	6	17
Actuarial loss – demographics	3,673	290
Actuarial (gain) / loss – financial	(69,454)	44,532
Experience losses	8,767	23,950
Benefits paid	(76,511)	(112,894)
Past service cost	-	2,016
At 31 March	904,973	1,009,502

The deficit 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 £298k (2019: £368k).

#### 20 Subsidiary, and associates and joint venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Interest %
BNS Pensions Limited	United Kingdom	100%

The subsidiary is directly owned and has been dormant since incorporation. Registered address is c/o Babcock International, Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD.

#### 21 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine & Technology Holdings Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

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

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