

Babcock Marine (Clyde) Limited

Annual report

For the year ended 31 March 2021

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 2021

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

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

	2021 £000	2020 £000
Revenue	198,306	178,005
Profit for the financial year	10,753	7,306
Net Assets	13,702	6,742

The Company is part of the Nuclear Sector of Babcock International Group PLC ("Babcock") and continues to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's maritime change 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 operative contract of the ToBA framework for the financial year was the Maritime Support Delivery Framework ("MSDF"), which included all allocated Warship Upkeep, Ships and Submarine fleet time support, along with elements of Engineering Services design activities. This contract expired at the end of March 2021 and was replaced by the Future Maritime Support Programme ("FMSP") which provides continuity of these activities for a further 5 year period plus options to extend up to a further 2 years at the end of the core term. FMSP is being contracted as four separate Qualifying Defence Contracts ("QDCs") under the Defence Reform Act and is subject to the Single Source Contracting regulations and was signed on 30 September 2021.

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 seventh 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 2021, the Company maintained delivery of key operational outputs at Clyde throughout the Covid-19 Pandemic with additional Covid-19 Safe Systems of Work being introduced. We saw a slight increase in the number of RIDDOR reportable incidents at HMNB Clyde over the previous year's figure from 10 to 11. Although the overall number of injury incidents decreased slightly from 110 to 90, both of these figures are unacceptably high and increased focus has been put into our safety arrangements in the latter part of this financial year and this will continue. The Company continues to proactively engage with the workforce in improving our overall safety performance 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 2021 (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 84 to 95 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 2021, the Company has agreed the future contracts under the Future Maritime Support Programme. The contracts will deliver improved performance and value for money for the customer. These contracts have been placed under the Terms of Business Agreement (ToBA) contractual framework. 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.

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

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 52 and 53 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board



L Brown
Director
9 November 2021

Babcock Marine (Clyde) Limited

Directors' report for the year ended 31 March 2021

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 representing £nil per ordinary share was declared and paid in the year (2020: £10,000,000). No final dividend for the year ended 31 March 2021 has been provided 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

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 47 to 49 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:

S Bowen
L Brown
K Douglas
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 2021 (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 2021 (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.

Statement of disclosure of information to auditors

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

Reappointment of auditors

PricewaterhouseCoopers LLP has now completed its final audit as external auditors. 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



L Brown
Director
9 November 2021

Babcock Marine (Clyde) Limited

Independent auditors' report to the directors 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 2021 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 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.

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 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, 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.

Babcock Marine (Clyde) Limited

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

Responsibilities for the financial statements and the audit (continued)

Auditors' responsibilities for the audit of the financial statements

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

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 Companies Act 2006 and UK Tax Legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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 posting inappropriate journal entries and fraudulent recording of revenue. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims, litigation, and instances of fraud
- Understanding of management's controls designed to prevent and detect irregularities
- Review of board minutes
- Identifying and testing journal entries to assess whether any of the journals appeared unusual, for example unexpected account combinations impacting revenue
- Incorporating into our testing plan procedures which are unpredictable in nature

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.

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 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.

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
9 November 2021

Babcock Marine (Clyde) Limited

Income statement

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Revenue	4	198,306	178,005
Cost of sales		(184,169)	(165,558)
Gross profit		14,137	12,447
Administration expenses		(3,477)	(3,284)
Operating profit	6	10,660	9,163
Profit before interest		10,660	9,163
Finance income	5	58	77
Finance costs	5	(3)	(46)
Other finance costs - pensions	19	123	43
Profit before taxation		10,838	9,237
Income tax expense	10	(85)	(1,931)
Profit for the financial year		10,753	7,306

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Profit for the financial year		10,753	7,306
Other comprehensive income (expense): <i>Items that will not be subsequently reclassified to income statement:</i>			
(Loss) / gain on re-measurement of net defined benefit obligation	19	(4,683)	2,502
Tax on net defined benefit obligation		890	(511)
Total comprehensive income for the year		6,960	9,297

Babcock Marine (Clyde) Limited

Statement of financial position as at 31 March 2021

	Note	2021 £000	2020 £000
Current assets			
Inventories	11	112	134
Trade and other receivables	12	61,795	28,833
Cash and cash equivalents		20,875	35,002
		82,782	63,969
Trade and other payables	13	(69,181)	(61,496)
Net current assets		13,601	2,473
Gross pension assets			
	19	101	4,269
Net assets		13,702	6,742
Capital and reserves			
Called up share capital	15	-	-
Retained earnings		13,702	6,742
Total shareholders' funds		13,702	6,742

The notes on pages 13 to 39 are an integral part of these financial statements.

The financial statements on pages 11 to 39 were approved by the board of directors and signed on its behalf by:



L Brown
Director
9 November 2021

Babcock Marine (Clyde) Limited

Statement of changes in equity for the year ended 31 March 2021

	Note	Called up share capital £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 April 2019		-	7,445	7,445
Profit for the financial year		-	7,306	7,306
Other comprehensive income		-	1,991	1,991
Total comprehensive income			9,297	9,297
Dividends paid	16	-	(10,000)	(10,000)
Balance at 31 March 2020		-	6,742	6,742
Profit for the financial year		-	10,753	10,753
Other comprehensive income		-	(3,793)	(3,793)
Total comprehensive income			6,960	6,960
Dividends paid	16	-		
Balance at 31 March 2021		-	13,702	13,702

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 principal 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, 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;
- e) 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.
- f) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- g) IAS 7, 'Statement of cash flows'
- 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.

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Going concern

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

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations 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.

(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.

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

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

(d) Costs of obtaining a contract

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.

(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.

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Inventory and work in progress

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

Trade receivables

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

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 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 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 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.

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

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.

Dividend distribution

Dividends are recognised as a liability in the Company's financial statements in the period in which they are approved.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised

Government Grants

Government grants relating to costs are recognised as income over the periods necessary to match them with the related costs and are presented as other income credit in the income statement. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, 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:

Revenue and profit recognition

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.

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 19 for the disclosures of the defined benefit pension scheme.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

4 Revenue

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

	2021 £000	2020 £000
By area of activity:		
Provision of services – transferred over time	195,844	174,314
Sale of goods – transferred at a point in time	2,462	3,691
	<u>198,306</u>	<u>178,005</u>

All the revenue originated in the United Kingdom.

5 Finance income and costs

	2021 £000	2020 £000
Finance income:		
Loan interest receivable from group undertakings	<u>58</u>	<u>77</u>
	<u>58</u>	<u>77</u>
Finance costs:		
Bank and other interest	<u>(3)</u>	<u>(46)</u>
	<u>(3)</u>	<u>(46)</u>

6 Operating profit

Operating profit is stated after charging:

	2021 £000	2020 £000
Audit fees payable to the Company's auditors	54	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.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

7 Staff costs

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

	2021 Number	2020 Number
By activity:		
Production	1,728	1,527

Their aggregate remuneration comprised:

	2021 £000	2020 £000
Wages and salaries	75,860	65,690
Social security costs	7,823	7,120
Other pension costs (note 19)	8,784	8,610
	92,467	81,420

Included in wages and salaries is a total expense of share-based payments of £nil (2020: £8,000) of which £nil (2020: £8,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £1,124,000 (2020: £374,000) in respect of the defined benefit schemes and £7,660,000 (2020: £8,236,000) 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.

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:

	2021 £000	2020 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	461	314
Defined contribution pension scheme	10	10
	471	324

During the year two (2020: two) directors remunerated by Babcock Marine (Clyde) Limited were entitled to receive share options under long term incentive plans.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

8 Directors' remuneration (continued)

Retirement benefits are accruing to four directors (2020: four) under Group pension schemes.

Except for two (2020: 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:

	2021	2020
	£000	£000
Emoluments (excluding pension contributions)	280	166
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 £nil (2020: £8,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £nil (2020: £6,000).

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

DBMP, PSP and DBP

	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
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100.0%	–	905.5	46.0%	14/06/17

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

Both the vesting period and the expected life of all 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.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

9 Share based payments (continued)

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 180,175 matching shares (2020: 104,756 matching shares) at a cost of £0.5million (2020: £0.5million).

10 Income tax expense

Tax expense included in income statement

	2021 £000	2020 £000
Current tax:		
UK Corporation tax on profits for the year	-	1,631
Current tax charge for the year	-	1,631
Deferred tax:		
Origination and reversal of temporary differences	98	124
Prior year adjustments	(13)	176
Total deferred tax credit (note 14)	85	300
Tax on profit	85	1,931

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

10 Income tax expense *(continued)*

Tax expense / (income) included in other comprehensive income

	2021 £000	2020 £000
Current tax		
Deferred tax:		
- Tax impact of actuarial losses / gains on pension liability	(890)	489
- Impact of change in tax rates	-	22
Tax (income) / expense included in other comprehensive income	(890)	511

Tax expense for the year is lower (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 £000
Profit before taxation	10,838	9,237
Profit before taxation multiplied by standard UK corporation tax rate of 19% (2020: 19%)	2,059	1,755
Effects of:		
Group relief (claimed) for nil consideration	(1,961)	-
Adjustments in respect of deferred tax for prior years	(13)	176
Total tax charge for the year	85	1,931

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 Inventories

	2021 £000	2020 £000
Finished goods and goods for resale	112	134

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

12 Trade and other receivables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade receivables	294	444
Amounts due from customers for contract work	12,855	3,645
Amounts owed by group undertakings	46,128	22,056
Other receivables	2,066	2,152
Prepayments and accrued income	452	536
	61,795	28,833

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

	Amounts due for contract work £000	Accrued Income £000	Total £000
31 March 2020	3,645	283	3,928
Transfers from contract assets recognised at the beginning of the year to receivables	(3,645)	(283)	(3,928)
Increase due to work done not yet billed	12,855	201	13,056
At 31 March 2021	12,855	201	13,056

13 Trade and other payables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade creditors	12,542	16,628
Amounts owed to parent and group undertakings	14,236	6,901
Taxation and social security	2,114	1,791
UK corporation tax payable	13,533	13,533
Deferred tax (Note 14)	18	823
Payments received on account	842	730
Other payables	2,452	2,762
Accruals and deferred income	23,444	18,328
	69,181	61,496

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
At 1 April 2020	15,658	730	16,388
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(730)	(730)
Increase due to cash received, excluding amounts recognised as revenue	-	842	842
Amounts accrued	20,470	-	20,470
Amounts utilised	(15,658)	-	(15,658)
At 31 March 2021	20,470	842	21,312

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 2020:	1	(824)	(823)
- Charged to the income statement		(85)	(85)
- Credited to other comprehensive income		890	890
At 31 March 2021:	1	(19)	(18)

15 Called up Share capital

	2021 £	2020 £
Allotted and fully paid		
1 (2020: 1) ordinary shares of £1 each	1	1

16 Dividends

Dividends declared and paid were £nil (2020: £10,000,000), this is equivalent to £nil per share (2020: £10,000,000). There are no plans for a final dividend.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

17 Guarantees and financial commitments

Contingent liabilities

At the year-end date the Company had joint and several liability for the drawn bank overdraft facilities of other Group companies of £nil (2020: £nil).

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.

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 contributes to a defined benefit scheme in the UK in respect of a number of its employees (the "Citrus Clyde Pension scheme"). 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 schemes which have been recognised in these financial statements are detailed in this note.

The nature of the schemes are 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, and through investment committees 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 schemes are funded by payments to legally separate trustee-administered funds. The trustees of the schemes 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 schemes have an independent trustee and member nominated trustees. The schemes are 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 Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

BIG 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 2019. The major assumptions used for the IAS 19 valuation were:

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

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

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 2021 and the changes to the Babcock International Group Plc income statement for the year to 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	8,841
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%	(52,877)	(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 cashflows (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 balance sheet date of 31 March 2021 were:

Fair value of plan of 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
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)
Gross pension surplus	17,481	110,584

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 2021, 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)

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	<u>9,336</u>	<u>8,663</u>
Net interest income	<u>(2,843)</u>	<u>(1,300)</u>
Total charged to the income statement	<u>6,493</u>	<u>7,363</u>

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 £431k for service cost (2020: £358k) and net interest credit of £131k (2020: £54k).

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

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £4,483k (2020: £2,417k gain).

The equity investments and bonds are valued at bid price.

	2021 £000	2020 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	1,453,019	1,468,976
Interest cost	34,244	34,345
Employee contributions	99	140
Employer contributions	26,981	21,874
Benefits paid	(80,924)	(80,602)
Settlement	-	-
Actuarial gain	<u>59,551</u>	<u>8,286</u>
At 31 March	<u>1,492,970</u>	<u>1,453,019</u>

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

	2021 £000	2020 £000
Reconciliation of present value of scheme liabilities		
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 – demographics	11,371	6,350
Actuarial loss / (gain) – financial	166,168	(54,871)
Experience losses	9,021	6,371
Benefits paid	(80,924)	(80,602)
Past service cost	999	-
At 31 March	1,421,689	1,276,793

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 £808k (2020: £4,567k).

Rosyth 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 2015. The major assumptions used for the IAS 19 valuation were:

	2021 %	2020 %
Major assumptions		
Rate of increase in salaries	2.9	1.9
Rate of increase in pension payment	3.2	2.7
Discount rate	2.1	2.6
Inflation	3.2	2.7

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The mortality assumptions used were:

	2021 Years	2020 Years
Life expectancy from age 65 (male age 65)	19.8	19.8
Life expectancy from age 65 (male age 45)	20.9	20.9

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

	Defined benefit obligations 2021 £000	Income statement 2021 £000
Initial assumptions	1,022,842	5,538
Discount rate assumptions increased by 0.5%	(82,748)	(1,070)
Discount rate assumptions decreased by 0.5%	82,748	242
Inflation rate assumptions increased by 0.5%	73,235	1,465
Inflation rate assumptions decreased by 0.5%	68,121	1,362
Total life expectancy increased by half a year	50,119	1,002
Total life expectancy decreased by half a year	(50,119)	(1,002)

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 2021 were:

Fair value of plan assets	2021 £'000	2020 £'000
Equities	22,105	5,799
Property	80,568	80,166
High yield bonds / emerging market debt	68,885	-
Absolute return and multi strategy funds	117,385	127,291
Bonds	238,122	226,278
Matching assets	350,902	411,250
Active position on longevity swaps	(66,162)	(57,567)
Total assets	811,805	793,217
Present market value of liabilities - funded	(1,022,842)	(904,973)
Gross pension (deficit)	(211,037)	(111,756)

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

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 2021, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	2021 £000	2020 £000
Current service cost	1,946	5,480
Incurred expenses	1,486	535
Total included within operating profit	<u>3,432</u>	<u>6,015</u>
Net interest cost	2,774	4,144
Past service cost	206	-
Curtailment	<u>7,500</u>	<u>-</u>
Total charged to the income statement	<u>13,912</u>	<u>10,159</u>

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 £30k for service cost (2020: £16k) and net interest cost of £8k (2020: £11k).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2021 £000	2020 £000
Actuarial (loss) / gain recognised in the SOCl	(137,133)	65,781
Experience losses	(20,508)	(8,767)
Gain / (loss) on assets	53,392	(10,878)
Other (losses) / gains	<u>(7,384)</u>	<u>911</u>
	<u>(111,633)</u>	<u>47,047</u>

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £243k (2020 : £85k gain).

The equity investments and bonds are valued at bid price.

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

	2021 £000	2020 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	850,784	889,537
Interest on assets	17,367	20,202
Employer contributions	26,264	28,428
Employee contributions	4	6
Benefits paid	(69,844)	(76,511)
Actuarial gain / (loss)	53,392	(10,878)
At 31 March	877,967	850,784
Reconciliation of present value of scheme liabilities		
At 1 April	904,973	1,009,502
Service cost	1,946	5,480
Incurred expenses	1,486	535
Interest on liabilities	18,930	22,975
Employee contributions	4	6
Actuarial (gain) / loss – demographics	(1,366)	3,673
Actuarial loss (gain) – financial	138,499	(69,454)
Experience losses	20,508	8,767
Benefits paid	(69,844)	(76,511)
Past service cost	206	-
Curtailment	7,500	-
At 31 March	1,022,842	904,973

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 £572k (2020: £298k).

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

Clyde Citrus 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 major assumptions used for the IAS 19 valuation were:

	2021 %	2020 %
Major assumptions		
Rate of increase in salaries	2.9	-
Rate of increase in pension payment	3.2	-
Discount rate	2.1	-
Inflation	3.2	-

The expected total employer contributions to be made by participating employers to the scheme in 2021/22 are £1.4m. The future service rate is 26.3%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years.

The mortality assumptions used were:

	2021 Years	2020 Years
Life expectancy from age 65 (male age 65)	22.7	N/A
Life expectancy from age 65 (male age 45)	23.7	N/A

The changes to the balance sheet at March 2021 and the changes to the income statement for the year to March 2021, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £000	Income statement 2021 £000
Initial assumptions	587	2,034
Discount rate assumptions increased by 0.5%	(73)	(227)
Discount rate assumptions decreased by 0.5%	73	237
Inflation rate assumptions increased by 0.5%	32	110
Inflation rate assumptions decreased by 0.5%	(32)	(110)
Total life expectancy increased by half a year	6	20
Total life expectancy decreased by half a year	(6)	(20)
Salary increase assumptions increased by 0.5%	49	160
Salary increase assumptions decreased by 0.5%	(49)	(160)

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

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 2021 were:

Fair value of plan assets	2021	2020
	£'000	£'000
Equities	102	-
Property	33	-
Absolute return and multi strategy funds	32	-
Bonds	64	-
Matching assets	221	-
Total assets	452	-
Present market value of liabilities - funded	(587)	-
Gross pension (deficit)	(135)	-

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 2021, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	2021	2020
	£000	£000
Current service cost	641	-
Incurred expenses	22	-
Total included within operating profit	663	-
Total charged to the income statement	663	-

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2021	2020
	£000	£000
Actuarial gain recognised in the SOCl	54	-
Experience losses	(15)	-
Gain on assets	4	-
	43	-

Babcock Marine (Clyde) Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The equity investments and bonds are valued at bid price.

	2021 £000	2020 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	-	-
Interest on assets	-	-
Employer contributions	485	-
Benefits paid	(37)	-
Actuarial gain	4	-
At 31 March	452	-
Reconciliation of present value of scheme liabilities		
At 1 April	-	-
Service cost	641	-
Incurring expenses	22	-
Actuarial (gain) – demographics	(1)	-
Actuarial (gain) – financial	(53)	-
Experience losses	15	-
Benefits paid	(37)	-
At 31 March	587	-

The deficit recognised in these financial statements was £135k (2020: £nil).

Babcock Marine (Clyde) Limited

Notes to the financial statements *(continued)*

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