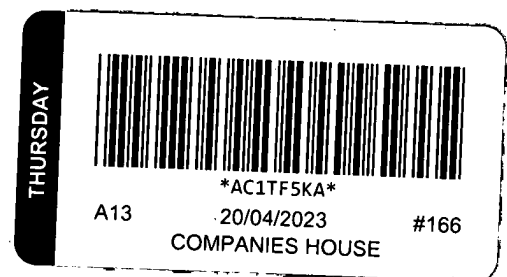


**Babcock Land Limited**  
**Annual report**  
**For the year ended 31 March 2021**

**Company registration number:**  
**03493110**



## **Babcock Land Limited**

### **Directors and advisors**

#### **Current Directors**

N Borrett  
L Atkinson  
T Newman  
S Doherty

#### **Company Secretary**

Babcock Corporate Secretaries Limited

#### **Registered office**

33 Wigmore Street  
London  
W1U 1QX

#### **Independent Auditors**

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

## Babcock Land 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 activities of the Company are the provision of vehicles, engineering support, training, and manpower services primarily in the UK defence sector.

#### Review of the business

	Year ended 31 March 2021 £000	Year ended 31 March 2020 £000 * Restated
Revenue	54,648	208,203
(Loss) / Profit on ordinary activities before income tax	(36,354)	3,073

\*Restated: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to reassessments associated with the application of IFRS15 Revenue and IFRS16 Leases. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £10,862,000 and an increase in the profits on ordinary activities before income tax by £753,000. Total shareholders' funds have fallen by £4,879,000. Please see note 17 to the financial statements for further details.

On 1 April 2020 the Royal School of Military Engineering (RSME) contract novated to Babcock Land Defence Limited. The RSME contract provides infrastructure and training support to the British Army. With the transfer of the profit usually generated through trading the RSME contract, Babcock Land Limited subsequently recognised a loss in the year ended 31 March 2021. The driver of the subsequent loss was generated by interest payable of £7.6 million on an intercompany loan. This loan became non-interest bearing from 1 April 2021 and therefore the company forecasts to return to profitability in subsequent years.

Following a contract amendment on the Phoenix contract in February 2020, the financial risk associated with certain key performance indicator failures has reduced significantly. The effect of the contract change is that Babcock is now deemed to be agent of the customer, not principal, and therefore the revenue generated after this point should be recognised net of associated cost. As a result of this change, £71.8 million of revenue generated in the year ended 31 March 2021 has been recorded net of associated cost whilst £11.6 million revenue has been derecognised in relation to the year ended 31 March 2020 on the same basis. See note 17 for further details of the prior year adjustment. The Company's loss before tax includes an impairment of software on the fleet contract amounting to £4.9 million.

Effective from 1st April 2021, fleet contracts primarily providing lease vehicles and a fleet management system to the British Army (the Contract Hire and Phoenix II contracts) were novated from Babcock Land Limited to Babcock Land Defence Limited. This included all the assets and liabilities, associated with the contracts for a consideration of £547,758 representing net asset value at transfer date.

As discussed below under principal risks and uncertainties, COVID-19 has had very little impact on the business operationally and financially, given the nature of the business and its contractual obligations during the period under review.

**Strategic report for the year ended 31 March 2021** *(continued)*

**Principal risks and uncertainties**

The management of the business and the execution of the Company's strategy are subject to a few 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 Company, Sector and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks associated with its contracts.

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

Most of the work undertaken by the Company is in defence programmes. These are principally long-term contracts in fleet management and training. This has continued throughout the COVID-19 pandemic. The COVID-19 pandemic is expected to have relatively little impact on the business and its cash flows.

The bulk of operational staff in the Company have been designated as key workers during the COVID-19 pandemic and therefore, have continued to provide ongoing services and support to the MoD. Although some contracts would have been initially impacted, due to a drop in demand in services such as face to face training courses, the Company was quick to adopt virtual learning environments to ensure services were not impacted. This had limited impact on profitability and net cash flow as these are mainly pass-through costs to the customer with no margin. In other contracts, the Company has worked closely with its customers and agreed to re-phase its services limiting the impact over the next financial year.

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 FY 2021 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 sector basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance, or position of the Company. The growth and performance of Land, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 54 to 55 of the Group's report, which does not form part of this report.

**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 FY2021 annual report of Babcock International group PLC, which does not form part of this report.

The disclosure in the Group FY2021 annual report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees

**Babcock Land Limited**

**Strategic report for the year ended 31 March 2021** *(continued)*

A handwritten signature in black ink, consisting of a series of loops and a long horizontal stroke.

On behalf of the board

L Atkinson

**Director**

17 April 2023

## **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**

No dividend was declared or paid during the financial year (2020: £nil) representing £nil per ordinary share (2020: £nil). No final dividend for the year ended 31 March 2021 has been provided by the directors (2020: £nil).

### **Future developments**

The intention is to novate the remaining Babcock Land Limited contracts to Babcock Land Defence Limited in the following two financial years. The future strategy is to migrate the contracts to gain administrative and management efficiencies, once all the contracts have been novated, Babcock Land Limited will be liquidated in due course.

The directors are confident about the future trading prospects of the Company due to its existing secured contracts. Some of these continue until the year ended 31 March FY2024. The impact of COVID-19 is discussed further under Principal risks and uncertainties.

### **Financial risk management**

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

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

#### *Price risk*

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

#### *Credit risk*

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

#### *Liquidity risk*

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

## **Babcock Land Limited**

### **Directors' report for the year ended 31 March 2021** *(continued)*

#### **Financial risk management** *(continued)*

##### *Interest rate cash flow risk*

The Company has interest-bearing liabilities. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

#### **Directors**

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

L Atkinson (appointed 9 December 2021)  
N Borrett  
J Davies (resigned 28 June 2021)  
J Dixon (resigned 3 August 2020)  
S Doherty (appointed 31 May 2022)  
M Lawton (resigned 9 October 2020)  
T Newman (appointed 29 June 2021)  
R Taylor (resigned 31 October 2021)  
I Urquhart (resigned 31 May 2022)  
S West (appointed 9 October 2020, resigned 1 July 2022)  
S White (appointed 3 August 2020; resigned 30 September 2021)

#### **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 considered when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

#### **Safety policy**

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

#### **Research and development**

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

**Directors' report for the year ended 31 March 2021** *(continued)*

**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 in respect of the financial statements**

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

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

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

The directors are 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.

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.

**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.



**Directors' report for the year ended 31 March 2021** *(continued)*

**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 to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

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

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

**Appointment of auditors**

PricewaterhouseCoopers LLP has now completed its final audit as external auditor. Deloitte LLP has been selected as the Company's external auditor for the financial year ending 31 March 2022 following shareholder approval at the Annual General Meeting of the Ultimate Parent, Babcock International Group PLC.

On behalf of the board



L Atkinson

**Director**

17 April 2023

# Independent auditors' report to the members of Babcock Land Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Babcock Land Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2021; the Income Statement, Statement of Comprehensive Income and 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.

## **Independent auditors' report to the members of Babcock Land 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 in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Independent auditors' report to the members of Babcock Land 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 fraud and unethical and prohibited business practices and indirect and direct tax laws, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate or fictitious journal entries to manipulate the financial performance or financial performance of the Company and management bias in accounting estimates to achieve budgeted and forecast results. Audit procedures performed by the engagement team included:

- Enquiry of management around actual and potential fraud and non-compliance with laws and regulations.
- Auditing the risk of management override of controls, including through the testing of journal entries and other adjustments for appropriateness, testing accounting estimates (because of the risk of management bias), incorporation of an element of unpredictability into the audit procedures performed, and evaluating the business rationale of significant transactions outside the normal course of business.
- Audit of the compliance and completeness of disclosures in the financial statements and a review of the completeness, compliance and consistency with the financial statements of disclosures the Strategic Report and Directors' Report, with respect to required legal requirements, such as The Companies Act 2006.
- Review of legal expenses and enquiry of staff in compliance functions to identify any instances of non-compliance with laws and regulations.

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

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

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

### **Responsibilities for the financial statements and the audit (*continued*)**

#### **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.

## **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.



Christopher Solomides (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Southampton  
18<sup>th</sup> April 2023

# Babcock Land Limited

## Income Statement

for the Year Ended 31 March 2021

	Note	2021 £000	2020 £000 Restated*
<b>Revenue</b>	4	<b>54,648</b>	208,203
Cost of sales		(48,686)	(183,291)
<b>Gross Profit</b>		<b>5,962</b>	24,912
Administrative expenses		(6,801)	(13,565)
Impairment of investments	13	(27,044)	-
<b>(Loss) / Profit before interest and taxation</b>	6	<b>(27,883)</b>	11,347
Finance income	5	1	1,201
Finance costs	5	(8,568)	(9,636)
Other finance income - pensions	5	96	161
Net finance costs		(8,471)	(8,274)
<b>(Loss) / Profit on ordinary activities before income tax</b>		<b>(36,354)</b>	3,073
Income tax expense	9	(531)	(1,852)
<b>(Loss) / Profit for the financial year</b>		<b>(36,885)</b>	1,221

All the above results are derived from continuing operations.

\* Restated: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to reassessments associated with the application of IFRS15 Revenue and IFRS16 Leases. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £10,862,000 and an increase in the profits on ordinary activities before income tax by £753,000. Please see note 17 to the financial statements for further details.

The notes on pages 17 to 56 form an integral part of these financial statements.

## Babcock Land Limited

### Statement of Comprehensive Income for the Year Ended 31 March 2021

	Note	2021 £000	2020 £000
			Restated*
<b>(Loss)/Profit for the financial year</b>		<b>(36,885)</b>	<b>1,221</b>

### Other comprehensive (expense)/income

*Items that will not be subsequently reclassified to income statement:*

(Loss)/Gain on re-measurement of net defined benefit obligation	23	<b>(4,439)</b>	5,297
Tax income/(expense) on net defined benefit obligation	9	<b>843</b>	(1,122)
Total other comprehensive (expense)/income		<b><u>(3,596)</u></b>	<b><u>4,175</u></b>
<b>Total comprehensive (expense)/income for the year</b>		<b><u>(40,481)</u></b>	<b><u>5,396</u></b>

The notes on pages 17 to 56 form an integral part of these financial statements.

\* Restated: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to reassessments associated with the application of IFRS15 Revenue and IFRS16 Leases. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £10,862,000 and an increase in the profits on ordinary activities before income tax by £753,000. Please see note 17 to the financial statements for further details.

# Babcock Land Limited

## Balance Sheet

as at 31 March 2021

	Note	2021 £000	2020 £000
<b>Fixed assets</b>			*Restated
Intangible assets	10	392	7,980
Property, plant and equipment	11	215	418
Right-of-use assets	12	19,467	24,596
Investments	13	77,703	98,319
		<u>97,777</u>	<u>131,313</u>
<b>Current assets</b>			
Pension scheme surplus	23	587	13,701
Trade and other receivables	14	133,580	128,164
Cash and cash equivalents		19,487	46,124
		<u>153,654</u>	<u>187,989</u>
<b>Current Liabilities</b>			
Trade and other payables	15	(59,242)	(78,871)
Lease Liabilities	16	(4,305)	(4,668)
<b>Net current assets</b>		<u>90,107</u>	<u>104,450</u>
<b>Total assets less current liabilities</b>		<u>187,884</u>	<u>235,763</u>
<b>Non-current liabilities</b>			
Trade and other payables	15	(140,000)	(140,000)
Lease Liabilities	16	(14,741)	(19,794)
Deferred tax liability	18	(89)	(2,434)
<b>Net assets</b>		<u>33,054</u>	<u>73,535</u>
<b>Equity</b>			
Called up share capital	20	1	1
Share premium account		29,199	29,199
Retained earnings		3,854	44,335
<b>Total shareholders' funds</b>		<u>33,054</u>	<u>73,535</u>

\*Prior year restatement: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to reassessments associated with the application of IFRS15 Revenue and IFRS16 Leases. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £10,862,000 and an increase in the profits on ordinary activities before income tax by £753,000. Total shareholders' funds have fallen by £4,879,000. Please see note 17 to the financial statements for further details. The notes on pages 17 to 56 are an integral part of these financial statements. The financial statements on pages 13 to 56 were approved by the board of directors and signed on its behalf by:



L Atkinson  
Director

Date 17 April 2023



**Babcock Land Limited**

**Statement of Changes in Equity**  
for the Year Ended 31 March 2021

	<b>Called up Share capital £000</b>	<b>Share premium account £000</b>	<b>(Accumulated losses)/ Retained earnings £000</b>	<b>Total Shareholders' (deficit)/ funds £000</b>
<b>Balance at 1 April 2019</b>	<b>1</b>	<b>29,199</b>	<b>44,428</b>	<b>73,628</b>
Prior year restatement*	-	-	(5,489)	(5,489)
<b>Balance at 1 April 2019 restated</b>	<b>1</b>	<b>29,199</b>	<b>38,939</b>	<b>68,139</b>
Profit for the financial year	-	-	1,221	1,221
Other comprehensive income	-	-	4,175	4,175
	-	-	5,396	5,396
<b>Balance as at 31 March 2020 restated</b>	<b>1</b>	<b>29,199</b>	<b>44,335</b>	<b>73,535</b>
Loss for the financial year	-	-	(36,885)	(36,885)
Other comprehensive expense	-	-	(3,596)	(3,596)
	-	-	(40,481)	(40,481)
<b>Balance as at 31 March 2021</b>	<b>1</b>	<b>29,199</b>	<b>3,854</b>	<b>33,054</b>

**Notes to the financial statements** *(forming part of the financial statements)*

**1. General information**

Babcock Land Limited is a private Company limited by shares, which is incorporated and domiciled in the UK. The address of the registered office is 33 Wigmore Street, London, W1U 1QX, England.

**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, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in pounds 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 Defence & Security Holdings LLP 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 requirements to prepare consolidated financial statements.

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- 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 requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.

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

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

**Basis of preparation** *(continued)*

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

The Company meets its day-to-day working capital requirements through its cash reserves and borrowings. Whilst the current economic conditions due to COVID-19 continue to create uncertainty, there is no expectation of any significant impact in demand for its services, performance of its contract obligations or operations. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current cash reserves and borrowing facilities. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

**Going concern**

To assess whether the Company is a going concern the directors have:

- a) Reviewed the future profitability of the Company. Forecasts have been prepared until the end of each of the secured contracts.
- b) Assumed that any new contracts will be traded through Babcock Land Defence Limited.
- c) Obtained a letter of support from Babcock International Group Plc. They have ensured that Babcock International Group Plc has sufficient funds to meet this commitment and other letters of support it has issued.

Having made these enquiries the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence until the end of the last secured contract during the year ended 31 March FY2024. The company holds an investment in Babcock Land Defence Limited which is expected to trade profitably 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.

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

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

**Revenue (continued)**

*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.
- the amount received by the Company is not dependent upon the results of a particular year in isolation

Some 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

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

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

*c) Revenue and profit recognition (continued)*

time that control is transferred to the customer. 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 or services to the customer and right to payment by the Company.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made.

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

Variable revenue which relates to a particular year is accounted for in the year in which it relates.

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/overspends against the contract target cost are shared with the customer. These contract sharing arrangements are accounted for in the year to which they relate.

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, typically at preferred bidder stage, and the contract is expected to result in future net cash inflows.

*e) Contract mobilisation*

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

*f) Principal versus agent considerations*

The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Company controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and

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

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

*f) Principal versus agent considerations (continued)*

within budget, either through gainshare arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a contract, by contract basis. Except one contract (the Phoenix II contract), the Company has determined it acts as principal on behalf of the customer. The treatment of this one contract accounted for as agent is further explained in Note 17 of the financial statements.

*g) Series guidance*

Under IFRS 15 where; the goods or services are substantially the same; each distinct good or service is a performance obligation satisfied over time; and the same method would be used to measure progress towards satisfaction of each distinct good or service in the series; then a single performance obligation is applied. Revenue is then recognised against this performance obligation in line with the work performed.

**Intangible assets**

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

*a) Goodwill*

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101. When the fair value of the consideration for an acquired undertaking exceeds the fair value of its separable net assets, the difference is treated as purchased goodwill and is capitalised. When the fair value of the consideration for an acquired undertaking is less than the fair value of its separable net assets, the difference is taken directly to the income statement.

All Goodwill balances have been impaired to nil in previous periods.

*b) Software and licenses*

Software relates to development costs and software licences acquired plus the cost incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful life of 8 years.

*c) Research and development*

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

Research and development costs are included under the category software and licenses. They are amortised over the same period as the asset to which they relate.

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

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

**Property, plant, and equipment**

Property, plant, and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided on a straight-line basis to write off the cost of property, plant, and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Motor vehicles	7 to 12 years
Equipment fixtures and fittings	3 years

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

**Investments**

The Company holds investments at the fair value of the assets, liabilities and contract intangible acquired being the consideration paid at the date of acquisition less provision for impairment of value.

At the balance sheet date, consideration is given as to whether an impairment trigger may exist. Where a trigger is considered to exist, the carrying value of the investment is compared to its recoverable amount. Impairment is tested by reviewing the future cash flows based on various assumptions including growth, margins, additional business, and extension of existing contracts. Please see note 3 for further details.

Fixed asset investments are stated at cost less accumulated impairment losses.

**Trade and other receivables**

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. The risk of recovery of all trade receivables is considered to be low given the primary customer is the Ministry of Defence.

**Trade and other payables**

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers.

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

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

**Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the balance sheet, bank overdrafts are shown within borrowings in current liabilities.

**Financial Assets**

Basic financial assets, including debtors and cash and bank balances, are initially recognised at transaction price.

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

**Financial Liabilities**

Basic financial liabilities, including creditors, bank loans and loans from fellow group companies, are initially recognised at transaction price. Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled, or expires.

**Other Financial Liabilities**

In 2020 the Company recognised liabilities associated to certain leases disclosed as finance leases under IAS17. A reassessment of the nature of the liability has been conducted and a restatement has been reflected in these financial statements to reclassify these liabilities as lease liabilities accounted for under IFRS16. See note 17 for further information.

**Dividend income**

Dividend income is recognised when the right to receive payment is established.

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.



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

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

**Taxation**

a) Current income tax

Current income 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 reporting date.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the reporting 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. The carrying amount of deferred income tax assets is reviewed at each balance sheet date. Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Company to make a single net payment.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date

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, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

**Pension 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.

Upon the transfer of the RSME contract to Babcock Land Defence Limited, the surplus on the Babcock International Group pension scheme was not part of the sale agreement as it is not considered a contract asset. However, as the allocation of the pension balance follows the entity the employees are employed by, the RSME employees' share of the scheme surplus is now shown in the Babcock Land Defence Limited accounts. This movement has been recognised through other comprehensive income.

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

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

**Pension costs and other post-retirement benefits**

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 the 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 values 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 reporting date less the fair value of the plan assets at the reporting date.

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

**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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**Lessee accounting**

For lessees there is no longer a distinction between finance or operating leases as all leases are now recognised on the balance sheet. When a lease commences, a lease liability is recognised that is equal to the present value of the minimum lease payments. A right-of-use asset is also recognised and is equal in value to the lease liability. This represents the right to use the leased asset for the full lease term.

Short-term leases and low-value leases are exempt from recognition on the balance sheet, and the payments are instead recognised on a straight-line basis in the income statement in the same way as they would have been under IAS 17. A lease is considered short-term if the total lease length is less than 12 months, and low value if the underlying asset would cost less than £5,000 to buy new.

Right-of-use assets are depreciated over the total lease term. As the discounting is unwound, interest is charged in the income statement and increases the lease liabilities. When lease payments are made, the lease liabilities reduce. Therefore, both right-of-use assets and lease liabilities have nil value at the end of the lease.

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

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

**Lessee accounting** *(continued)*

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

**Provisions for liabilities**

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined based on estimated results on completion of contracts and are contract assessments are updated regularly.

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

**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 reporting 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.

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 considering known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below:

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

**3. Critical accounting estimates and judgements** *(continued)*

**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. Decisions need to be made as to whether to account for the contract on a short term, point in time basis, or whether the contract should be accounted over a few years on a long term, contract, over time basis. To determine which option to select the Directors have first considered the contract duration. Numerous factors are considered including the termination period of the contract. When considering whether revenue should be recognised over time, the Directors have considered the criteria outlined in IFRS15 para 35, with revenue recognised over time if any of the following three criteria are met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or
- the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

Revenue and profit recognition estimates on long term contracts 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. A significant part of these judgements relates to cost estimation to completion of contracts. The assessment of all significant contracts is subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

The Company uses the percentage of completion method of revenue recognition in all its long term, contracts. In these long term, contracts 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.

**Principal versus Agent**

The Directors have re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue on one of the Company's contracts. The Directors have previously taken the judgement that the Company acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. Following a contract amendment signed in February 2020 on the contract the risk of certain key performance indicator failures and associated penalties are no longer carried by Babcock Land Limited. The Directors have considered the level of responsibility the Company has under the contract for the provision of the services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gainshare arrangements or KPI deductions in relation to the other

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

**3. Critical accounting estimates and judgements** *(continued)*

**Principal versus Agent** *(continued)*

performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. The Directors have concluded that following this contract amendment, on balance, as the company now acts as agent on the contract and the resultant accounting policy means that revenue and cost of sales are now presented net for this contract. This results in a decrease in revenue and cost of revenue of £11.6 million in the year ended 31 March 2020. There is no impact to reported profit or cash because of this adjustment. See note 17.

**Material rights**

The Phoenix II contract duration, as stipulated in the original contract, was for a period of six firm years, with four option years available for the customer to exercise following this. IFRS15 requires the directors to assess these renewal options to determine if they represent a material right to the customer, and hence whether they should be included within the contract when assessing the appropriate period over which revenue should be recognised. A material right is considered to exist where they are offered at a price that does not reflect the stand-alone selling price for a similar contract to a similar class of customer (i.e., they provide an incremental discount to the customer). The pricing matrix of the contract sets out the pricing for all four option years. To assess whether the price for the extension years is a discount compared to the stand-alone selling price, the consideration for these years has been forecast using the pricing schedule from the contract and applying an interpretation of the indexation formula provided by the customer, approximately equal to future inflation rates the Directors reasonably anticipated at the outset of the contract.

This pricing (for the option years) would have generated a very low margin (consistent with the existing contract), which is significantly below the margins Babcock would expect to make for this type of work. On this basis, the contract pricing for each year of the optional extension period is considered to be lower than the stand alone, selling price.

Management has therefore determined that the option years represent a material right in the context of the contract. Accordingly, management has assessed that the renewal options give rise to separate performance obligations on a relative stand-alone selling price basis.

IFRS15 Revenue does allow an allocation of the transaction price to performance obligations arising over certain types of options that represent material rights, based upon the practical expedient of IFRS 15 paragraph B43. This is provided that:

- a) a customer has a material right to acquire future services and those services are similar to the original services in the contract
- b) the services are provided in accordance with the terms of the original contract

In these cases, an entity may allocate the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration.

Management has applied these principals to the contract and identified separate performance obligations for the six years, initial contract, and a further performance obligation for the option years.

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

**3. Critical accounting estimates and judgements** *(continued)*

**Material rights** *(continued)*

IFRS 15 Revenue requires that material rights should be factored by their probability of happening. Babcock's assessment at contract inception was that this probability was 100% for each of the four option years, on the basis that:

- As explained above, the option years were offered at a discount versus the price paid in the preceding years, and
- The MoD habitually takes up option years; and
- Including the material rights at 100% gave the most prudent profit recognition in the early years of the contract.

This was not the original approach taken - applying this approach at contract inception would have resulted in the total contract value (including the material rights for all four option years, factored at 100% probability) being accounted for across a ten-year period, rather than the six-year term, upon which the accounting was initially based. The restatement related to this error is explained in note 17.

After the initial assessment, considering a contract modification in February 2020, the Directors reassessed the material rights associated to the option years and determined an updated estimate that only 2 years should be reflected. This contract modification was accounted for as a termination of the existing contract and the creation of a new contract as per IFRS 15 para 21(a) (prospective application). The adjustment (effectively a release of the deferred revenue) has been accounted for over the remaining contract period. See note 17 for further information.

**Termination clauses contained within contracts**

Per IFRS15, paragraph 11, the revenue standard applies to the duration of the contract in which the parties to the contract have present enforceable rights and obligations. This requires assessment of termination clauses in contracts.

Each of the RSME, EMTC, Phoenix and TMASS contracts contain termination clauses whereby the customer can terminate the contracts with notice periods of between 1 and 6 months. The directors have considered whether the penalties associated with such termination clauses are 'substantive'.

Given the nature of any such penalties, the Directors have formed the judgement that these are not substantive for RSME, EMTC & TMASS. This judgement is primarily formed based on TUPE regulations applying should the customer terminate the contract. Since the costs associated with contracts are predominantly employee costs, any costs associated with termination to the Company, and in turn penalties applied to the customer, are not expected to be substantive. See note 17 for details of prior period restatements recognised based upon the reassessment of the appropriateness of this judgement.

Where the penalties are substantial the Company has taken the view that the customer is unlikely to cancel the contract and the contract should be accounted for over time. The Phoenix contract contains substantial penalties and therefore, should be accounted for over time.

**Series Guidance**

The total contractual price on the Phoenix II contract contains elements of fixed and elements of variable revenue. The variable revenue includes KPIs debits and credits, gain share and

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

### 3. Critical accounting estimates and judgements *(continued)*

#### Series Guidance *(continued)*

discretion fees that are effectively a reduction of revenue if certain targets aren't met, and other volume based variable revenue components.

The Company recognises the revenue on these variable revenue elements in the period the related sub-activities occurred as per IFRS 15, paragraph 85.

Assuming that IFRS 15, paragraph 85 applies when cost method is used in the series guidance, the "distinct services" within the series could be interpreted as the sub-activities in the time increment. On that basis, variable consideration is allocated to the related sub-services in the period it has occurred.

The Directors have identified a critical accounting judgement exists whereby the principal underlying contract is accounted for over time (see above) using an input basis (cost) to determine stage of completion, whilst the variable consideration is allocated to the distinct sub-services in the series, based upon the interpretation of IFRS 15, paragraph 85. The outcome of this allocation is that the variable revenue is not recognised based on the long term, contract model, accounted for over time, but rather recognised in the period in which the related activities are performed. This judgement has given rise to a prior year restatement. See note 17.

#### Contract Hire contract – sublease classification

Under the Contract Hire contract, the Company holds many lease contracts with a lessor for the long term, lease of a fleet of vehicles (the "Head Lease"). The Company then sub-leases these vehicles to the customer (the "Sub-lease"). The duration of the Head Lease and the Sub-lease are identical.

The Directors have used judgement in determining the classification of the sublease and have determined that in substance the Sub-lease arrangement is that of an operating lease.

More precisely, significant judgement was made to consider the sublease as operating lease based on the overall substance of the arrangement where Babcock retains significant benefits from the sale of the vehicles to third parties at the end of the head-lease – Babcock are appointed as sales agents at the culmination of the lease. In other words: management has concluded that there is a residual asset in the sublease contract, which Babcock will get back and will be able to generate rewards from by virtue of selling that asset. Thus, in applying paragraph 65 of IFRS 16 (*"if it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of [the right-of-use arising from the headlease - para B58], the lease is classified as an operating lease"*) management have concluded that the rewards of ownership have not been substantially transferred and thus the contract is an operating lease. In arriving at this assessment, the Directors have determined the following:

- Judgement has been applied in evaluating the classification criterion of present value of the sublease payments vs the fair value of the asset (where results were between 79% and 90%).
- The head lessor is a financing group, and hence in the Directors judgement it would be reasonable to assume that there would be no benefit in the head lessor taking the vehicles back at the end of the lease to retain the residual value which reinforces the substance of the transaction where the benefit from that residual value remains with Babcock.
- Babcock maintain the responsibility of providing all elements of maintenance and servicing throughout the term of the leases.

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

**3. Critical accounting estimates and judgements** *(continued)*

**Defined benefit pension scheme**

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a few 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 23 for the disclosures of the defined benefit pension scheme.

**Investments**

The directors believe that the carrying value of the investment in Babcock Land Defence Limited is supported by the value-in-use of the entity. In the preparation of the value-in-use calculation for Babcock Land Defence Limited, management have included future income beyond the end of the current contracts held in Babcock Land Defence, assuming that these contracts will be extended, or other new contracts will be won.

The carrying value of the investment is included as a critical accounting judgement because of the material impact of the future income to the recoverable amount and the inherent judgemental nature of value-in-use calculations. The value in use is equal to the carrying value of the investment after impairment. Therefore, if any existing contracts are not extended as expected, or if there is a downturn in performance in those contracts compared to budgets, this would lead to a further material impairment of the investment balance. Conversely if there is a increase in the performance of the contracts, or additional business is secured then this would lead to a change in cashflow estimates and there would be a material reversal of the impairment loss. See note 13 for the disclosures of the carrying value of investments.

**4. Revenue**

Revenue is wholly attributable to the principal activities of the Company and is of United Kingdom origin and destination.

Revenue includes operating lease revenue of £204,000 (2020: £444,000) and £1,199,000 of management charges (2020: £1,617,000).

**5. Finance income and costs**

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
<b>Finance income</b>		
Bank interest	1	40
Loan interest receivable from group undertakings	-	1,161
	<u>1</u>	<u>1,201</u>



Notes to the financial statements (continued)

5. Finance income and costs (continued)

	2021 £000	2020 £000
<b>Finance costs</b>		
Bank interest	(9)	(153)
Loan interest payable to group undertakings	(7,617)	(8,298)
Interest on lease liabilities	(942)	(1,185)
	<u>(8,568)</u>	<u>(9,636)</u>
 Interest on other financial liabilities - pensions	 96	 161
	<u>(8,471)</u>	<u>(8,274)</u>

6. (Loss)/Profit before interest and taxation

(Loss)/profit before interest and taxation is stated after charging/(crediting):

	2021 £000	2020 £000
		*Restated
Depreciation - property, plant & equipment *	61	128
Depreciation of right-of-use assets *	4,168	4,299
Interest on lease liabilities *	942	1,185
Operating lease charges – short term leases	23	46
Foreign exchange losses	-	23
Amortisation charge on intangible assets	1,078	1,264
Impairment of software development costs (included in administrative expenses)**	4,928	-
Impairment of goodwill (included in administrative expenses)	-	6,502
Impairment of investment***	27,044	-
Profit on disposal of property, plant and equipment	153	(59)
Fees for audit services payable to the Company's auditor****	75	64

\* Depreciation of right of use assets has been restated as a result of the restatement of leased assets from Property, Plant and Equipment to Right-of-Use assets. See notes 12 and 17 for further details.

\*\*Impairment of software development costs relates to an impairment recorded against the software asset developed for use on the Phoenix II vehicle hire contract as per Note 10 of the financial statements.

\*\*\*Impairment of investment relates to an impairment recorded against the investment in Babcock Land Defence Limited as per Note 13 of the financial statements.

\*\*\*\*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.

**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:

	<b>2021</b>	2020
	<b>Number</b>	Number
<b>By Activity:</b>		
Operations	<b>796</b>	1,113
Management and administration	<b>28</b>	27
	<b><u>824</u></b>	<u>1,140</u>

Their aggregate remuneration comprised:

	<b>2021</b>	2020
	<b>£000</b>	£000
Wages and salaries	<b>28,091</b>	42,273
Social security costs	<b>3,006</b>	4,312
Other pension costs (note 24)	<b>3,225</b>	3,992
	<b><u>34,322</u></b>	<u>50,577</u>

Included in other pension costs are £408,000 (2020: £912,000) in respect of the defined benefit scheme and £2,817,000 (2020: £3,080,000) 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 group companies.

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

**8. Directors' remuneration**

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

	<b>2021</b>	2020
	<b>£000</b>	£000
Aggregate emoluments (including benefits-in-kind)	<b>359</b>	546
Defined contribution pension scheme	<b>23</b>	49
Defined benefit pension scheme	-	-
	<u><b>382</b></u>	<u>595</u>

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

	<b>2021</b>	2020
	<b>£000</b>	£000
Aggregate emoluments (excluding pension contributions)	<b>201</b>	314
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	<b>14</b>	40
	<u><b>215</b></u>	<u>354</u>

During the year one (2020: *no*) director remunerated by the Company exercised share options under long term incentive plans and two (2020: *no*) directors were entitled to receive share options under long term incentive plans.

During the year the highest paid director exercised share options under long term incentive plans and the highest paid director was entitled to receive share options under long term incentive plans (2020: the highest paid director did not exercise shares and no directors were entitled to receive options under long term incentive plans)

Retirement benefits are accruing to two directors (2020: *two*) under SIPS money purchase scheme.

No retirement benefits are accruing for any director (2020: *none*) under the Babcock International Group Pension Scheme.

The directors were remunerated by the company until September 2020. From October 2020 all 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 companies.

Notes to the financial statements *(continued)*

9. Tax expense

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

	2021 £000	2020 £000
<b>Current tax:</b>		Restated*
UK Corporation tax on profits for the year	-	1,445
<b>Current tax charge for the year</b>	<u>-</u>	<u>1,445</u>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	410	374
Adjustment in respect of prior years	121	38
Impact of change in UK tax rate	-	(5)
<b>Total deferred tax charge/(credit) (note 19)</b>	<u>531</u>	<u>407</u>
<b>Income tax expense</b>	<u>531</u>	<u>1,852</u>

	2021 £000	2020 £000
<b>Tax (expense)/income included in other comprehensive income</b>		Restated*
<b>Deferred tax:</b>		
Tax impact of actuarial losses/(gains) on pension liability	843	(1,006)
Impact of change in UK tax rate	-	(116)
<b>Tax income/(expense) included in other comprehensive income</b>	<u>843</u>	<u>(1,122)</u>

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

## Notes to the financial statements (continued)

## 9. Tax expense (continued)

	2021 £000	2020 £000 Restated*
<b>(Loss)/profit before income tax</b>	<b>(36,354)</b>	<b>3,073</b>
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	<b>(6,907)</b>	<b>584</b>
Effects of:		
Income not subject to UK taxation		-
Expenses not deductible for tax purposes	<b>5,138</b>	<b>1,235</b>
Group relief (claimed)/surrendered for nil consideration	<b>2,179</b>	-
Adjustment in respect of deferred tax for prior years	<b>121</b>	<b>38</b>
Impact of change in UK tax rate	-	(5)
<b>Total tax charge for the year</b>	<b>531</b>	<b>1,852</b>

## 10. Intangible assets

	Other intangibles £000	Software development costs £000	Total £000
<b>Cost or valuation</b>			
At 1 April 2020	2,285	8,795	<b>11,080</b>
RSME Transfer to Babcock Land Defence Limited	(2,285)	-	<b>(2,285)</b>
Disposals	-	-	-
Additions	-	103	<b>103</b>
<b>At 31 March 2021</b>	<b>-</b>	<b>8,898</b>	<b>8,898</b>
<b>Accumulated amortisation</b>			
At 1 April 2020	(600)	(2,500)	<b>(3,100)</b>
RSME Transfer to Babcock Land Defence Limited	600	-	<b>600</b>
Charge for the year	-	(1,078)	<b>(1,078)</b>
Impairment	-	(4,928)	<b>(4,928)</b>
<b>At 31 March 2021</b>	<b>-</b>	<b>(8,506)</b>	<b>(8,506)</b>
<b>Net book value</b>			
<b>At 31 March 2021</b>	<b>-</b>	<b>392</b>	<b>392</b>
At 31 March 2020	1,685	6,295	<b>7,980</b>

Effective 1 April 2020, the RSME contract was novated from Babcock Land Limited to Babcock Land Defence Limited, a subsidiary company. The transfer of the RSME contract assets and liabilities to BLDL was transacted for a fixed price of £1 on 1 April 2020, equal to the net assets of the contract at this point. The assets transferred included the other intangibles held at 1 April 2020 (primarily related to acquired know how relating to a smart, buildings solution). See note 13.

## Notes to the financial statements (continued)

## 10. Intangible assets (continued)

A software asset was capitalised in previous years relating to user interfaces for vehicle bookings that was developed for use on the Phoenix II vehicle hire contract. Following the Phoenix II changes in estimates, the vehicle hire contract and the wider usage of the software; the recoverable amount has been determined to be £0.4 million. This was based upon a value in use calculation and results in an impairment charge of £4.9 million.

## 11. Property, Plant and Equipment

	Motor Vehicles	Equipment Fixtures & Fittings	Total
Cost or valuation	£000	£000	£000
At 1 April 2020 as previously stated	45,299	440	45,739
Reclassification as Right of use assets*	(42,795)	-	(42,795)
<b>Restated At 1 April 2020</b>	<b>2,504</b>	<b>440</b>	<b>2,944</b>
Additions	-	-	-
Disposals	(1,249)	-	(1,249)
<b>At 31 March 2021</b>	<b>1,255</b>	<b>440</b>	<b>1,695</b>
<b>Accumulated depreciation</b>			
At 1 April 2020 as previously stated	(22,683)	(238)	(22,921)
Reclassification as Right of use assets*	20,395	-	20,395
<b>Restated At 1 April 2020</b>	<b>(2,288)</b>	<b>(238)</b>	<b>(2,526)</b>
Charge for the year	(5)	(56)	(61)
Disposals	1,107	-	1,107
<b>At 31 March 2021</b>	<b>(1,186)</b>	<b>(294)</b>	<b>(1,480)</b>
<b>Net book value</b>			
At 31 March 2021	69	146	215
Restated at 31 March 2020	216	202	418

\*In prior years property, plant and equipment included certain leased assets held under finance leases which were not classified under IFRS16 as right-of-use assets. See note 17 for further details.

Notes to the financial statements *(continued)***12. Right-of-Use assets**

The Company has lease contracts for motor vehicles used predominantly for delivery of services on the Contract Hire contract, as well as an immaterial amount of lease contracts for motor vehicles used by the wider business.

The balance sheet shows the following amounts relating to leases:

	<b>Motor vehicles £000</b>	<b>Property £000</b>	<b>Total £000</b>
<b>Cost</b>			
<b>At 1 April 2020 as previously stated</b>	1,494	369	<b>1,863</b>
Reclassification as Right of use assets*	27,019	-	<b>27,019</b>
<b>Restated At 1 April 2020</b>	<b>28,513</b>	<b>369</b>	<b>28,882</b>
Additions	110	-	<b>110</b>
Disposals	(996)	(369)	<b>(1,365)</b>
<b>At 31 March 2021</b>	<b>27,627</b>	<b>-</b>	<b>27,627</b>
<b>Accumulated Depreciation</b>			
<b>At 1 April 2020 as previously stated</b>	(380)	(19)	<b>(399)</b>
Reclassification as Right of use assets*	(3,887)	-	<b>(3,887)</b>
<b>Restated At 1 April 2020</b>	<b>(4,267)</b>	<b>(19)</b>	<b>(4,286)</b>
Charge for the year	(4,168)	-	<b>(4,168)</b>
Disposals	275	19	<b>294</b>
<b>At 31 March 2021</b>	<b>(8,160)</b>	<b>-</b>	<b>(8,160)</b>
<b>Net book value</b>			
<b>At 31 March 2021</b>	<b>19,467</b>	<b>-</b>	<b>19,467</b>
Restated at 31 March 2020	24,246	350	<b>24,596</b>

\*In prior years property, plant and equipment included certain leased assets held under finance leases which were not classified under IFRS16 as right-of-use assets. See note 17 for further details.

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

**13. Investments**

	Shares in group undertakings £000	Total £000
<b>Cost</b>		
At 1 April 2020	98,319	98,319
Capital contribution on transfer of RSME contract	6,429	6,429
Impairment of investment in Babcock Land Defence Limited	(27,044)	(27,044)
<b>At 31 March 2021</b>	<b>77,703</b>	<b>77,703</b>

The shares in group undertakings represents 100% of the shares in Babcock Land Defence Limited (BLDL, formerly Babcock DSG Limited).

A gain arose on sale of the RSME contract following the processing of accounting for the prior period adjustments (note 17), impacting upon the contract balances held on the balance sheet. The transfer of the RSME contract assets and liabilities to BLDL was transacted for a fixed price of £1 on 1 April 2020, equal to the net assets of the contract at this point. The adjustments have changed the net assets recognised and hence a £2,233,000 gain has been recognised on the sale of the RSME contract. Offsetting this gain was the transfer of the defined benefit pension scheme surplus related to the RSME employees of £10,693,000. The combined sale is treated as a capital contribution increasing the investment in BLDL.

The directors have impaired the carrying value of the investment in the year to align it with the value in use of the underlying asset.

On 15 September 2010, proprietary know-how, not capitalised in the financial statements of the Company was transferred to Babcock Integration LLP in exchange for an interest in that partnership, to facilitate the integration of the Babcock and VT Groups. The partnership interest has been recognised at a cost of £nil given that the know-how transferred was not recognised in the financial statements of the Company prior to the transfer. A royalty is payable at 1.5% of non-pass-through external revenue. The charge for the year is £718,457 (2020: £1,803,724).

**14. Trade and other receivables**

	2021 £000	2020 £000
<b>Amounts falling due within one year:</b>		Restated*
Trade receivables	3,094	3,526
Amounts owed by parent and group undertakings	122,542	120,188
Contract assets	7,354	3,219
Other receivables	320	211
Prepayments	270	1,020
	<b>133,580</b>	<b>128,164</b>

\* The prior year Contract assets balance has been reduced by £5,649,000 following restatements associated to accounting for IFRS15 Revenue. Please see note 17 for further details.

Amounts due by group undertakings includes two loans (2020: one) to group companies:

- A loan of £115,107,400 (2020: £117,208,876) is unsecured, interest free and repayable on demand,
- A loan of £5,269,000 (2020: £nil) is unsecured, interest free and repayable on demand.



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

**14. Trade and other receivables** *(continued)*

All financial assets of the Company are carried at amortised cost. The receivables are stated after provisions for impairment of £nil (2020: £nil).

	<b>Total contract assets £000</b>
<b>Contract assets</b>	
<b>At 1 April 2020</b>	<b>6,635</b>
*Prior year adjustment	<b>(3,416)</b>
<b>At 1 April 2020 restated</b>	<b>3,219</b>
Transfers from contract assets recognised at the beginning of the year to receivables	<b>(3,219)</b>
Increase due to work done not transferred from contract assets	<b>7,354</b>
<b>At 31 March 2021</b>	<b>7,354</b>

\*The prior year balances have been corrected to reflect the IFRS15 corrections as stated in note 17.

**15. Trade and other payables**

	<b>2021 £000</b>	<b>2020 £000</b>
		*Restated
<b>Amounts falling due within one year:</b>		
Trade Payables	<b>6,583</b>	11,121
Amounts owed to group undertakings	<b>8,066</b>	8,586
Contract liabilities	<b>10,068</b>	17,722
Other taxation and social security	<b>2,627</b>	2,805
UK corporation tax payable	<b>18,837</b>	18,901
Accruals	<b>13,061</b>	19,736
	<b>59,242</b>	78,871
<b>Amounts falling due after more than one year:</b>	<b>2021</b>	<b>2020</b>
Amounts owed to parent and group undertakings	<b>140,000</b>	140,000

\*In 2020 UK corporation tax payable has been restated following the changes explained in note 17. This has reduced the balance by £1,229,000. Contract liabilities have also been adjusted as necessary to reflect the impact of IFRS 15 adjustments. The resulting adjustment increases the 2020 contract liability balance by £1,411,000. Note 17 describes the reasons for the adjustment.

All financial liabilities of the Company are carried at amortised cost. The UK corporation tax payable balance consists of group relief payable to group undertakings.

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

**15. Trade and other payables (continued)**

Amounts owed to parent and group undertakings falling due within one year are unsecured and repayable on demand. All are interest free. The amount owed to parent and group undertakings falling due after more than one year includes one long term loan of £140 million (2020: one), which bears interest at a rate of Libor plus 5% (2020: 5%) and matures in 2028. The interest is payable every six months. From 1 April 2021 this loan is interest free.

<b>Contract liabilities</b>	<b>Total contract liabilities</b>
	<b>£000</b>
<b>At 1 April 2020</b>	<b>14,078</b>
*Prior year adjustment	<b>3,644</b>
<b>At 1 April 2020 restated</b>	<b>17,722</b>
Amounts utilised	<b>(17,722)</b>
RSME contract disposal	<b>(6,709)</b>
Amounts accrued	<b>16,777</b>
<b>At 31 March 2021</b>	<b>10,068</b>

\*Contract liabilities have been adjusted in the 2020 comparative to reflect the IFRS 15 adjustments see below. Note 17 describes the reasons for the adjustment.

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 21).

**16. Lease liabilities**

The entity leases vehicles under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

In prior years Property, plant and equipment included certain leased assets held under finance leases which were not classified under IFRS16 as right-of-use assets or corresponding lease liabilities, these have now been reclassified as right-of-use assets and lease liabilities under IFRS16. This is further explained in Note 17 of the financial statements.

Amounts recognised in the balance sheet

	<b>2021</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>
		Restated*
Current	<b>4,305</b>	4,668
Non-current	<b>14,741</b>	19,794
<b>Carrying value of liability</b>	<b>19,046</b>	<b>24,462</b>

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

**16. Lease liabilities (continued)**

Future minimum lease payments as at 31 March 2021 are as follows:

	<b>2021</b>	2020
	<b>£000</b>	£000
		Restated*
Not later than one year	<b>4,305</b>	4,668
Later than one year and less than five years	<b>14,741</b>	18,198
Later than five years	-	1,596
<b>Carrying value of liability</b>	<b><u>19,046</u></b>	<u>24,462</u>

\*In prior years Property, plant and equipment included certain leased assets held under finance leases which were not classified under IFRS16 as right-of-use assets. See Note 17 for further details.

Lease payments of £5,415,543 (2020: £5,437,319) were paid in the year in relation to leases accounted for under IFRS16. Expense relating to short-term leases (included in administrative expenses) for the year was £nil. (2020: £161,144).

**17. Prior period adjustments****17(a). Agent v Principal conclusions on the Phoenix contract (prior period error)**

As explained in note 3 to the accounts, the Directors have re-examined the presentation of revenue and cost of revenue in relation to pass-through revenue attained in relation to the provision of vehicles to the British Army under the Phoenix contract. Upon reassessment, it was determined that a contract amendment entered into in February 2020 represented a contract modification under IFRS 15. Following this point the judgement of the Directors is that the company has been acting as agent as the amendment to the contract removed certain penalties levied upon Babcock related to the contractors' performance on vehicle leases and rentals, leaving only KPIs related to Babcock's management obligations for the service.

The correction of this error from accounting as principal to accounting as agent was effective as of February 2020, a restatement to decrease the value of reported revenue and cost of revenue of £11.6 million in the year ended 31 March 2020 is required, reflecting the period between the contract amendment and the year end. There was no impact to reported profit because of this adjustment.

**17(b). IFRS16 Accounting for Vehicles on the Contract Hire Contract (prior period error)**

The Company holds lease contracts for a fleet of motor vehicles as part of the meeting the service delivery requirements under the Contract Hire contract. These vehicles are then sub-leased to the end customer, with the sub lease considered to represent an operating lease (see more detail in note 3). In the current year an error has been identified in the prior year financial statements in that the assets held as part of the head lease were recognised as Property, Plant and Equipment accounted for under IAS16 and not as Right of Use Assets and Lease Liabilities as required by IFRS16. A correction of the error has been made to reclassify the assets to plant and equipment rather than as right of use assets under IFRS16. The liabilities have also been reclassified as lease liabilities rather than 'Other financial liabilities' to reflect appropriate presentation in accordance with IFRS16. The change in profit reflects changes in interest and depreciation under these two different approaches.

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

**17. Prior period adjustments** *(continued)*

The closing 31 March 2020 balance sheet has been restated to derecognise £22,400,000 of tangible fixed assets and recognise £23,131,000 right-of-use assets, derecognise current other financial liabilities of £4,206,000 and recognise £4,199,000 current lease liabilities and finally derecognise non-current other financial liabilities of £19,093,000 and recognise £18,794,000 non-current lease liabilities. The opening retained earnings have increased by £840,000 as a result.

**17(c). Other IFRS15, Revenue adjustments**

Several adjustments have been made in relation to reassessments of judgemental positions taken regarding the treatment of the Company's contracts with customers, accounted for in accordance with IFRS15, Revenue, in addition to certain errors identified in prior accounting treatment. These adjustments can be broken down into the following categories:

**17(c)i. Change to recognition on a month-by-month basis (Prior period error)**

The Company has previously accounted for revenue over time for each of the three training contracts using cost as the appropriate measure of stage of completion. The time period applied was the total contract duration. The Company has reassessed whether termination clauses include in contracts reflect substantive penalties or not. As explained within note 3 to the accounts, on review the penalties are not substantive, reflecting an error in the previous treatment as none of the contracted terms have changed.

As a result of the identification of the error, the recognition method based on cost plus margin was no longer appropriate because the contract term has changed to a month-to-month contract and hence restatement for the erroneous assessment of the nature of termination clauses is required. The Company has re-examined the appropriateness of the accounting policy adopted to recognise revenue on each of these contracts under IFRS15 and has considered that based upon the nature of termination clauses built into the contracts, (by which the customer can terminate at short notice and without substantive penalties), it has been deemed more appropriate to adopt an accounting policy whereby revenue is recognised over time but on a monthly basis in accordance with the termination clauses of each of the contracts.

The impact of this change in accounting policy is to increase revenue by £1,112,000 and reduce costs by £93,000 for the year ended 31 March 2020. The loss before tax has been reduced by £1,205,000. Contract assets (within Trade and other receivables) and contract liabilities (within trade and other payables – amounts falling due within one year) have also been impacted, having been reduced by £2,233,000 and £963,000 respectively at 31 March 2020. The tax impact of these adjustments, of £594,000 is also included within Trade and other payables – amounts falling due within one year, taking the total restatement to this FSLI to £1,557,000.

**17(c)ii. Recognition of variable consideration at a point in time (Change in accounting policy)**

Certain elements of revenue recognised on the Phoenix contract are variable in nature. This variable consideration consists of:

- Key Performance Indicators that are effectively a reduction of revenue,
- gain share and discretionary reward fees awarded if certain targets are met, and other volume based variable revenue components

Previously these had been accounted for over time as part of the model used to recognise revenue as part of the wider Phoenix II service performance obligation. The Directors have

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

**17. Prior period adjustments** *(continued)*

re-examined the treatment of the variable consideration for this contract under IFRS15 in the year. The series guidance is now applied in accounting for this revenue. Management have applied judgement in adopting paragraph 85 of IFRS 15, whereby the variable consideration is no longer included in the previously used model whereby revenue was recognised over time. This adjustment is considered to be a change in accounting policy and hence comparatives have been restated. The result of this is that revenue for the variable elements of revenue is now recognised as they occur. More information can be found in note 3 to the accounts.

The impact of this change in accounting policy is to reduce revenue by £504,000 for the year ended 31 March 2020. Contract assets (within Trade and other receivables) have also been impacted, having been reduced by £1,860,000 at 31 March 2020.

**17(c)iii. Material rights provided by option year clauses in a contract (Prior period error)**

The Phoenix contract was for an initial period of six years, with four option years at inception. The original accounting policy applied was to recognise revenue over time based on a six-year contract duration, i.e., excluding any of the option years.

IFRS 15, Revenue requires that material rights should be factored by their probability of happening. The directors have reconsidered the approach adopted to include only the original six years and have determined that this conclusion was erroneous and instead the initial assessment should have been that there was a material right in relation to all four option years, on the basis that:

- the option years were offered at a discount versus the price paid in the preceding years;
- the MoD habitually takes up option years; and
- including the material rights at 100% gave the most prudent profit recognition in the early years of the contract.

Applying this approach would have resulted in the total contract value (including the material rights for all four option years, factored at 100% probability) being accounted for across a ten, year period.

In February 2020 notice from the customer had been received for the intention not to use the option on the last two option years. The Directors re-assessed the material rights in accordance with IFRS 15.B52 as having a probability of 0%, since they have now expired. This contract modification was accounted for as a termination of the existing contract and the creation of a new contract as per IFRS 15 para 21(a) (prospective application). The adjustment (effectively a release of the deferred revenue) has been released over the remaining contract period.

In conclusion, the option years have been determined to be a separate performance obligation to the original contract. The revenue increase of this change is £157,000 and this increases the profit before tax by £157,000 in the year ended 31 March 2020. The cumulative effect of these changes to 31 March 2019 as reflected in the statement of changes in equity is a reduction of £1,261,000. Contract assets (presented within Trade and other receivables) have also been impacted, having been reduced by £1,556,000 at 31 March 2020. The tax impact of this adjustment, presented in Trade and other payables -amounts falling due within one year is £296,000.

## Notes to the financial statements (continued)

## 17. Prior period adjustments (continued)

## 17(c)iii. Change in revenue recognition from point in time to revenue over time (Change in accounting policy)

On the Contract Hire contract (referenced above) the Company is responsible for providing service maintenance repair and inspection ("SMRI") services to support the fleet of leased vehicles. Revenue has previously been recognised for these SMRI activities monthly, matching the billing profile.

However, following a further review of the accounting policies applied to revenue recognition on the contract, the Directors have amend the applied policy to recognise revenue over time to align with the relative level of effort incurred over the life of the vehicles, whereby effort maintaining the vehicles increases with age of the vehicle. The revenue reduction of this change is £27,000 and this reduces the profit by £27,000 in the year ended 31 March 2020. The cumulative effect of these changes to 31 March 2020 is a decrease by £1,922,000 in equity. Contract liabilities (presented within Trade and other payables – amounts falling due within one year) have also been impacted, having been increased by £1,922,000 at 31 March 2020.

The effect upon the income statement for 2020 is as follows:

<b>Income Statement for the Year Ended 31 March 2020</b>	<b>Reported</b>	<b>Right Of Use assets</b>	<b>Agent / principal</b>	<b>Total Other IFRS15 Adjustments</b>	<b>Restated</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Revenue</b>	219,065	-	(11,600)	738	<b>208,203</b>
Cost of sales	(194,906)	(78)	11,600	93	<b>(183,291)</b>
<b>Gross profit</b>	<b>24,159</b>	<b>(78)</b>	-	<b>831</b>	<b>24,912</b>
Administrative expenses	(13,565)	-	-	-	<b>(13,565)</b>
<b>Profit before interest and taxation</b>	<b>10,594</b>	<b>(78)</b>	-	<b>831</b>	<b>11,347</b>
Finance income	1,201	-	-	-	<b>1,201</b>
Finance costs	(9,636)	-	-	-	<b>(9,636)</b>
Other finance income - pensions	161	-	-	-	<b>161</b>
<b>Net finance costs</b>	<b>(8,274)</b>	-	-	-	<b>(8,274)</b>
<b>Profit before income tax</b>	<b>2,320</b>	<b>(78)</b>	-	<b>831</b>	<b>3,073</b>
Income tax expense	(1,709)	15	-	(158)	<b>(1,852)</b>
<b>Profit for the financial year</b>	<b>611</b>	<b>(63)</b>	-	<b>673</b>	<b>1,221</b>

## Notes to the financial statements (continued)

## 17. Prior period adjustments (continued)

The split of other IFRS15 adjustments is as follows:

Income Statement for the Year Ended 31 March 2020	Recognition on a month- by-month basis	Point in time recognition of variable consideration	Material rights	Transfer to recognition over time	Total Other IFRS15 Adjustments
	2020 £000	2020 000	2020 £000	2020 £000	2020 £000
Revenue	1,112	(504)	157	(27)	738
Cost of sales	93	-	-	-	93
<b>Gross profit</b>	<b>1,205</b>	<b>(504)</b>	<b>157</b>	<b>(27)</b>	<b>831</b>
Administrative expenses	-	-	-	-	-
<b>Profit before interest and taxation</b>	<b>1,205</b>	<b>(504)</b>	<b>157</b>	<b>(27)</b>	<b>831</b>
Finance income	-	-	-	-	-
Finance costs	-	-	-	-	-
Other finance income - pensions	-	-	-	-	-
<b>Net finance costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Profit before income tax</b>	<b>1,205</b>	<b>(504)</b>	<b>157</b>	<b>(27)</b>	<b>831</b>
Income tax expense	(229)	96	(30)	5	(158)
<b>Profit for the financial year</b>	<b>976</b>	<b>(408)</b>	<b>127</b>	<b>(22)</b>	<b>673</b>

**Notes to the financial statements (continued)****17. Prior period adjustments (continued)**

The effect upon the Statement of Comprehensive income for 2020 is as follows:

<b>Statement of Comprehensive Income for the Year Ended 31 March 2020</b>	<b>Reported</b>	<b>Right Of Use assets</b>	<b>Agent / principal</b>	<b>Total Other IFRS15 Adjustments</b>	<b>Restated</b>
	<b>2020 £000</b>	<b>2020 £000</b>	<b>2020 £000</b>	<b>2020 £000</b>	<b>2020 £000</b>
<b>Profit for the financial year</b>	611	(63)	-	673	<b>1,221</b>
<i>Items that will not be subsequently reclassified to income statement:</i>					
(Loss)/Gain on re- measurement of net defined benefit obligation	5,297	-	-	-	<b>5,297</b>
Tax (expense) on net defined benefit obligation	(1,122)	-	-	-	<b>(1,122)</b>
	<b>4,175</b>	-	-	-	<b>4,175</b>
<b>Total other comprehensive income</b>	<b>4,786</b>	<b>(63)</b>	-	<b>673</b>	<b>5,396</b>



## Notes to the financial statements (continued)

## 17. Prior period adjustments (continued)

The effect upon the Balance sheet as at 31 March 2020 of the IFRS15 Revenue adjustments is as follows:

	Reported	Right Of Use assets	Agent / principal	Total Other IFRS15 Adjustments	Restated
<b>Balance Sheet</b>					
<i>as at 31st March 2020</i>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Fixed assets</b>					
Intangible assets	7,980	-	-	-	7,980
Property, plant & equipment	22,818	(22,400)	-	-	418
Right Of Use Assets	1,465	23,131	-	-	24,596
Investments	98,319	-	-	-	98,319
	<b>130,582</b>	<b>731</b>	<b>-</b>	<b>-</b>	<b>131,313</b>
<b>Current assets</b>					
Pension scheme surplus	13,701	-	-	-	13,701
Trade and other receivables	131,580	-	-	(3,416)	128,164
Cash and cash equivalents	46,124	-	-	-	46,124
	<b>191,405</b>	<b>-</b>	<b>-</b>	<b>(3,416)</b>	<b>187,989</b>
<b>Current Liabilities</b>					
Trade and other payables - amounts falling due within one year	(76,392)	(176)	-	(2,303)	(78,871)
Lease Liabilities	(469)	(4,199)	-	-	(4,668)
Other financial Liabilities	(4,206)	4,206	-	-	-
<b>Net current assets</b>	<b>110,338</b>	<b>(169)</b>	<b>-</b>	<b>(5,719)</b>	<b>104,450</b>
<b>Total assets less current liabilities</b>	<b>240,920</b>	<b>562</b>	<b>-</b>	<b>(5,719)</b>	<b>235,763</b>
<b>Non-current liabilities</b>					
Trade and other payables - amounts falling due after more than one year	(140,000)	-	-	-	(140,000)
Lease Liabilities	(1,000)	(18,794)	-	-	(19,794)
Other financial liabilities	(19,093)	19,093	-	-	-
Provisions for liabilities	(2,413)	(21)	-	-	(2,434)
<b>Net assets</b>	<b>78,414</b>	<b>840</b>	<b>-</b>	<b>(5,719)</b>	<b>73,535</b>
<b>Equity</b>					
Called up share capital	1	-	-	-	1
Share premium account	29,199	-	-	-	29,199
Retained earnings	49,214	840	-	(5,719)	44,335
<b>Total shareholders' funds</b>	<b>78,414</b>	<b>840</b>	<b>-</b>	<b>(5,719)</b>	<b>73,535</b>

## Notes to the financial statements (continued)

## 17. Prior period adjustments (continued)

The effect upon the 31 March 2020 reported balance sheet of the IFRS15 Revenue adjustments is as follows:

Balance Sheet as at 31st March 2020	Recognition on a month- by-month basis 2020 £000	Point in time recognition of variable consideration 2020 £000	Material rights 2020 £000	Transfer to recognition over time 2020 £000	Total Other IFRS15 Adjustments 2020 £000
<b>Fixed assets</b>					
Intangible assets	-	-	-	-	-
Property, plant & equipment	-	-	-	-	-
Right Of Use assets	-	-	-	-	-
Investments	-	-	-	-	-
<b>Current assets</b>					
Pension scheme surplus	-	-	-	-	-
Trade and other receivables	-	(1,860)	(1,556)	-	(3,416)
Cash and cash equivalents	-	-	-	-	-
	-	(1,860)	(1,556)	-	(3,416)
<b>Current Liabilities</b>					
Trade and other payables - amounts falling due within one year	(1,030)	354	295	(1,922)	(2,303)
Lease Liabilities	-	-	-	-	-
Other financial Liabilities	-	-	-	-	-
<b>Net current assets</b>	(1,030)	(1,506)	(1,261)	(1,922)	(5,719)
<b>Total assets less current liabilities</b>	(1,030)	(1,506)	(1,261)	(1,922)	(5,719)
<b>Non-current liabilities</b>					
Trade and other payables - amounts falling due after more than one year	-	-	-	-	-
Lease Liabilities	-	-	-	-	-
Other financial liabilities	-	-	-	-	-
Provisions for liabilities	-	-	-	-	-
<b>Net assets</b>	(1,030)	(1,506)	(1,261)	(1,922)	(5,719)
<b>Equity</b>					
Called up share capital	-	-	-	-	-
Share premium account	-	-	-	-	-
Retained earnings	(1,030)	(1,506)	(1,261)	(1,922)	(5,719)
<b>Total shareholders' funds</b>	(1,030)	(1,506)	(1,261)	(1,922)	(5,719)

Notes to the financial statements (continued)

18. Deferred Taxation

The major components of the deferred tax (assets) / liabilities recorded are as follows:

	Accelerated capital allowances £000	Defined Benefit Pension Scheme £000	Other timing differences £000	Total £000
At 1 April 2019	(328)	984	248	904
- Charged/(credited) to the income statement as restated	159	497	(248)	408
- Charged/(credited) to other comprehensive income	-	1,122	-	1,122
<b>Balance carried forward at 31 March 2020 as restated</b>	<b>(169)</b>	<b>2,603</b>	<b>-</b>	<b>2,434</b>
RSME transfer to Babcock Land Defence Limited	-	(2,032)	-	(2,032)
At 1 April 2020 as restated	(169)	2,603	-	2,434
(Credited)/charged to the income statement	173	383	(26)	530
(Credited)/charged to comprehensive income	-	(843)	-	(843)
<b>At 31 March 2021</b>	<b>4</b>	<b>111</b>	<b>(26)</b>	<b>89</b>

19. Dividend

No dividends have been declared or paid during the year under review (2020: £nil). This is the equivalent of £nil (2020: £nil) per ordinary share. There are no plans for a final dividend.

20. Called up share capital

	2021 £000	2020 £000
<b>Allotted, called up and fully paid</b>		
1,002 ordinary shares of £1 each (2020: 1,002)	<u>1</u>	<u>1</u>

21. Financial commitments

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 (2020: £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 (2020: £nil).

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

**22. Related party disclosures**

During the year the Company has entered into transactions in the ordinary course of business with ALC (FMC) Limited, (a Company 100% owned by ALC (Superholdco) Limited, which was 50% owned by Babcock Defence & Security Investments Limited. The contract came to an end in May 2021 and ALC (FMC) Limited will be wound down in due course. The Company also entered into transactions in the ordinary course of business with Holdfast Training Services Limited, a Company which was 74% owned by Babcock Defence & Security Investments Limited. Pursuant to a business transfer agreement dated 26 March 2020 the services contract between Holdfast Training Services Limited and Babcock Land Limited transferred the benefit of the services contract to Babcock Land Defence Limited with effect from 1 April 2020.

Transactions entered into and trading balances outstanding at 31 March 2021 are as follows:

	<b>Sales to related party £000</b>	<b>Purchases from related party £000</b>	<b>Amounts owed by related party £000</b>	<b>Amounts owed to related party £000</b>
Related party				
ALC (FMC) Limited				
2021	727	-	55	-
2020	2,268	(5)	-	-
Holdfast Training Services Limited				
2021	227	-	-	-
2020	67,314	-	763	-

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.

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

**23. 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 many of its employees. The Company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments

required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the

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

**23. Pension commitments** *(continued)*

liabilities. The schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk 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. 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.

Although the Group anticipates that scheme surpluses will be utilised during the life of the scheme to address member benefits, the Group recognises its retirement benefit surpluses in full in respect of the schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Group also considers that the trustees do not have the power to unilaterally wind up the schemes or vary benefits.

**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 2020. The major assumptions used for the IAS 19 valuation were:

	2021 %	2020 %
<b>Major assumptions</b>		
Rate of increase in salaries	<b>2.90</b>	2.00
Rate of increase in pension payment	<b>3.10</b>	2.60
Discount rate	<b>2.00</b>	2.40
Inflation rate (CPI) (past service)	<b>2.70</b>	1.80
Inflation rate (RPI) (past service)	<b>3.20</b>	2.60

The expected total employer contributions to be made by participating employers to the scheme in 2021/22 are £24.6 million. 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 £24.6 million is £12.5 million 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.

## Babcock Land Limited

### Notes to the financial statements (continued)

#### 23. Pension commitments (continued)

The mortality assumptions used were:

	2021 Years	2020 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 2021 and the changes to the Babcock International Group Plc income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £000	Income statement 2022 £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%	(52,887)	(1,648)
Total life expectancy increased by half a year	32,841	762
Total life expectancy decreased by half a year	(32,841)	(762)
Salary increase assumptions increased by 0.5%	7,677	455
Salary increase assumptions decreased by 0.5%	(7,677)	(455)

The 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 were:

	2021 £000	2020 £000
Equities	-	17,851
Property	138,681	136,091
Absolute return and multi strategy funds	77,583	87,564
Bonds	724,997	588,848
Matching assets	551,709	622,665
Scheme assets	1,492,970	1,453,019
Active position on longevity swaps	(53,800)	(65,642)
Total assets	1,439,170	1,387,377
Present market value of liabilities - funded	(1,421,689)	(1,276,793)
<b>Pension Scheme Surplus</b>	<b>17,481</b>	<b>110,584</b>

Notes to the financial statements *(continued)*

23. Pension commitments *(continued)*

Reconciliation of reimbursement rights

	2021 £000	2020 £000
At 1 April	(65,642)	(60,111)
Interest on reimbursement rights	(1,576)	(1,444)
Actuarial losses	13,418	(4,087)
At 31 March	<u>(53,800)</u>	<u>(65,642)</u>

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	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 £313,000 (2020: £1,073,000), for service cost and incurred expenses, and net interest income of £96,000 (2020: £161,000).

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 losses	(9,021)	(6,371)
Other gains/(losses)	13,418	(4,088)
	<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 is £4,439,000 (2020: Gain of £5,297,000).

The equity investments and bonds are valued at bid price.

Notes to the financial statements *(continued)*

23. Pension commitments *(continued)*

**Reconciliation of present value of scheme assets in Babcock International Group Plc**

	2021 £000	2020 £000
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	59,551	8,286
At 31 March	<u>1,492,970</u>	<u>1,453,019</u>

**Reconciliation of present value of scheme liabilities**

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

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £587,000 (2020: £13,701,000). The amount of the pensions surplus transferred to Babcock Land Defence Limited, as part of the transfer of trade and assets was £10,693,000.

The Company also operates several defined contribution schemes. The pension charge for the year includes contributions payable by the Company to these funds amounting to £2,797,000 (2020: £3,080,000). At 31 March 2021, no contributions were payable to the funds (2020: £nil).



## Babcock Land Limited

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

#### 24. Subsequent events

With effect from 1 April 2021, fleet contracts were novated from Babcock Land Limited to Babcock Land Defence Limited. The contracts are to provide lease vehicles to the MoD. The novation included all the assets and liabilities of the business for a consideration of £547,758. This was the net asset value at transfer date. The fleet contracts contributed £2.8m loss net of tax in 2021 after £6.0m (2020: £1.1m) of impairment and amortisation charges booked against the software asset.

#### 25. Related undertakings

The subsidiary undertakings of the Company at 31 March 2021 are shown below. The Company and its subsidiaries are incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares. The registered office for the subsidiaries is 33 Wigmore Street, London W1U 1QX.

Name	Country of Incorporation	Percentage held
Babcock Land Defence Limited	UK	100%

The company performs military vehicle maintenance and training and infrastructure management.

#### 26. Immediate and ultimate parent undertaking

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

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

The Company Secretary  
Babcock International Group PLC  
33 Wigmore Street  
London W1U 1QX7