

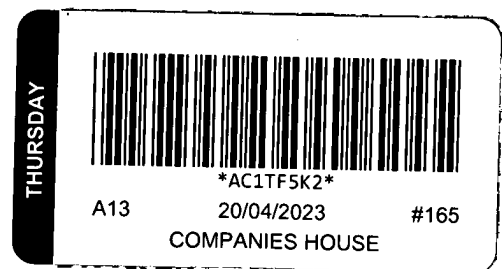
Babcock Land Defence Limited

Annual Report

For the year ended 31 March 2021

Company registration number:

09329025



Babcock Land Defence Limited

Directors and advisors

Current Directors

L Atkinson
N Borrett
J Cohen
S Doherty
T Newman

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 Defence 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 Company is engaged in the maintenance of military vehicles, the provision of vehicles, management of the Ministry of Defence (MoD) estate and support to training activities. During the year, the company's principal contract was the Defence Support Group contract ("DSG contract") with the MoD for the maintenance, repair, overhaul and storage of military vehicles and light weapons for the British Armed Forces. From the 1 April 2020 the company provides training for the Royal School of Military Engineering (RSME).

Review of the business

	Year ended 31 March 2021	<i>Restated*</i> Year ended 31 March 2020
	£000	£000
Revenue	164,177	121,747
Loss for the financial year before tax	(146,056)	(14,598)
Total shareholders' (deficit)/funds	(77,399)	54,366

*The 2020 restatement has been caused by a change in accounting treatment, (see note 25).

Effective from 16 July 2020, a shareholders' special resolution was passed to change the name of the Company (Babcock DSG Limited) to Babcock Land Defence Limited ("Babcock Land Defence") as part of a rationalisation initiative which will ultimately include the novation of all Babcock Land Limited contracts into the renamed Company.

Trading across most of the defence businesses held up well during the year despite COVID-19. However, activity slowed in some areas, including training and short-cycle inventory work at DSG while our work supporting the Defence Infrastructure Organisation "DIO" (in Germany reduced in scope).

Following the change in the Auditors of the company in FY22, the Directors have reviewed the company's revenue recognition approach in line with IFRS 15 and have restated the financial statements for FY20 to align with the new treatment. As set out in the auditors' report PwC, the company's auditor until FY21 year end, could not obtain sufficient appropriate evidence to determine whether the revised calculation of revenue in relation to each element is appropriate for the year ended 31 March 2020. This is because revenue is recognised for each performance obligation based on costs incurred to date compared to total estimated contract costs, and the pattern of costs differs across the different elements. This has led to the accounts receiving a modified audit opinion. The lack of evidence arises because the contract accounting models used in prior years, under the old revenue recognition approach, did not retain the level of detail needed to allocate costs to the different elements of the contract that are now accounted for separately. Notwithstanding the fact that the prior period costs have an impact on the FY21 revenue recognition, the appropriate detail is utilised in the contract accounting models for FY21 and going forwards.

As part of these changes made to revenue recognition, management have reviewed its approach in line with IFRS 15 and have re-stated revenue on the DSG contract. The impacts of these changes show that the net FY20 profit has fallen by £9.8 million, a decrease of £8.6 million due to the correction of prior year error and a decrease of £1.2 million due to changes in accounting policy. These changes also resulted in an increase of £20.7m to FY19 closing accumulated losses.

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

As detailed in the 2021 Annual Report of Babcock International Group PLC the group undertook a contract performance and balance sheet (CPBS) review. This was a review of the performance of its contract portfolio, and the judgements relating to carrying values of assets and liabilities on the balance sheet. The review was carried out by management using the expertise and resource of an independent accounting practice and resulted in the reassessment of the DSG contract following publication of the Integrated Spending Review and reassessment of cost savings achievable reflecting delays in implementation of efficiency programmes because of COVID-19. As a result, Babcock Land Defence Limited has recognised a lower margin on the contract during the year ended 31 March 2021. An impairment assessment under IAS 36 was carried out on the acquired contract intangible from 1 April 2015 and the capitalised software asset on the Group's Global ERP system and resulted in the full impairment of these assets of £56.4million and £9.1million respectively, as at 31 March 2021. Also, as part of this assessment, Property, plant & equipment, and Right-of-use assets were impaired by £5.3m and £9.1m respectively.

Effective from 1 April 2020, the contract with Holdfast to deliver training under a Public Private Partnership (PPP) for the Royal School of Military Engineering (RSME) contract was novated from Babcock Land Limited to Babcock Land Defence Limited. This included all the assets and liabilities of the business for a consideration of £1. The net asset valuation was higher than the consideration paid, leading to a capital contribution being recognised in Babcock Land Defence Limited. See note 27.

The Defence Infrastructure Organisation (DIO) facilities management contract for German and Italian locations was also novated to the Company from Babcock Support Services Limited with effect from April 2020. This has a three-year extension from 1 April 2020 with an opt out for the customer should it procure a successor contract within the three-year time frame. Babcock Support Services Limited's shareholding in Peterhouse GMBH was acquired by the company at the same time for £1 for the shares and £1 for net assets of the business.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee. The Company, Sector and Group conduct formal and rigorous reviews on a continual basis to monitor the operational performance and risks associated with the contract.

The key risks and uncertainties affecting the Company are considered to be related to the performance of contractual obligations, achieving extensions to existing contracts, political and regulatory environment. The directors manage these risks by meeting on a regular basis to discuss these risks. Other risks are as follows:

Babcock Land Defence Limited

Strategic Report for the year ended 31 March 2021 (continued)

Financial risks

The Company's operations expose it to a variety of financial risks that include the effects of changes in contract risk, credit risk, price 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 department. 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.

All treasury transactions are carried out only with prime rated counter parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 47 to 49 and Note 2 of the Annual Report of Babcock International Group PLC, which does not form part of this report.

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.

Interest rate cash flow risk

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

Babcock Land Defence Limited

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

Covid-19

Work on the defence programmes including equipment support has continued during the COVID-19 pandemic and are delivered across long-term contracts. The bulk of operational staff in the Company have been designated as essential workers during the COVID-19 pandemic and therefore have continued to provide ongoing services and support to the MoD. The health and wellbeing of our staff has been our main concern and we have taken measures to ensure they can continue to work safely. Whilst the full impact of COVID-19 cannot yet be determined with any certainty, at this time we do not expect it to have a material impact on the future results of the Company.

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 2021 annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

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

Financial risk management

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 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 2021 Annual Report of Babcock International Group PLC, which does not form part of this report.

The disclosure in the 2021 Group Annual Report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees. After the year end the Phoenix II and BCH contracts were novated from Babcock Land Limited.

The Company regularly engages with its shareholder, Babcock Land Limited, to constantly review the business with a view to improving shareholder returns, and more specifically in margin management, growth, and cost control.

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.

Please see the strategic report for a review of the business and the Companies principal risks and uncertainties.

Future developments

The directors are confident about the future trading prospects of the Company considering its current strong order book position and other market opportunities. At the 31 March 2021, following the Strategic Integrated Review in March 2021, the DSG contract's future volumes were expected to decrease and were assessed as part of the CPBS review. Our current view has seen very little change to volumes, and we continue to have strong growth opportunities.

There has been early engagement with the customer on the way forward for the DSG contract post 2025.

On 1 April 2021 the Phoenix II and Babcock Contract Hire (BCH) contracts were novated to the Company. This is explained in note 22 of the financial statements (Subsequent events). The remaining contracts in Babcock Land Limited are planned to be novated into Babcock Land Defence Limited in the future.

The Company will continue to invest and roll out its new SAP ERP system which went live in May 2020 which is expected to drive further efficiencies in its vehicle maintenance and spares procurement activities as well across other parts of the business.

Dividends

No capital repayment was declared or paid in the year (2020: £50million as part of a capital reduction resolution).

Post Balance Sheet Events

As more fully reported in note 22, after the year end the Phoenix and BCH were novated from Babcock Land Limited.

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 Cohen
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 Pemberton (resigned 23 November 2020)
R Taylor (resigned 31 October 2021)
I Urquhart (resigned 31 May 2022)

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

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.

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 to the minimum practicable level.

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

Statement of directors' responsibilities

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.

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.

Babcock Land Defence Limited

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

Statement of directors' responsibilities *(continued)*

Appointment of auditors

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

On behalf of the board



L Atkinson
Director
17 April 2023

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

Report on the audit of the financial statements

Qualified opinion

In our opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraph below, Babcock Land Defence 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 qualified opinion

As outlined in note 4, the Company has recognised £82.1m of revenue in respect of the DSG contract for the year ended 31 March 2021. As set out in the accounting policies and note 25, certain changes have been made in these financial statements to change the policies applied and to correct errors in the Company's previous approach to recognising revenue. Due to a lack of detailed information regarding the relative costs of the different elements of the DSG contract for the year ended 31 March 2020 and prior years, we have been unable to obtain sufficient appropriate evidence to determine whether the revised calculation of revenue in relation to each element is appropriate for the year ended 31 March 2020. This is because revenue is recognised for each performance obligation based on costs incurred to date compared to total estimated contract costs, and the pattern of costs differs across the different elements. Since the opening allocation of costs in respect of the different elements of the DSG contract under the new policy impacts revenue recognised for the year ended 31 March 2021, we were unable to obtain sufficient appropriate audit evidence over the revenue recognised for the year. Consequently, we were unable to determine whether any adjustments to these amounts were necessary and these amounts may not be comparable. For the same reason, we have been unable to obtain sufficient appropriate audit evidence over management's assessment of whether an onerous contract provision should be recorded in relation to any of the individual elements of the DSG contract.

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 qualified 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.

Babcock Land Defence Limited

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

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

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

Reporting on other information

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

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

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, except for the possible effects of the matters described in the Basis of qualified opinion.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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.

Babcock Land Defence Limited

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. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

In respect solely of the limitation on our work relating to DSG revenue recognition, described in the Basis of qualified opinion paragraphs above:

- we have not obtained all the information and explanations we require for our audit; and
- In our opinion, adequate accounting records have not been kept by the company.

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

- 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
18th April 2023

Babcock Land Defence Limited

Income Statement

for the Year Ended 31 March 2021

	Note	2021 £000	2020 £000 Restated*
Revenue	4	164,177	121,747
Cost of sales - excluding amortisation of contract intangible & impairment of assets	5	(211,169)	(120,356)
Cost of sales - impairment of contract intangible	5	(65,662)	-
Cost of sales - amortisation of contract intangible	5	(16,515)	(14,095)
Cost of sales - impairment of other assets	5	(14,341)	-
Total cost of sales		<u>(307,687)</u>	<u>(134,451)</u>
Gross loss		<u>(143,510)</u>	<u>(12,704)</u>
Administrative expenses		(2,191)	(1,072)
Operating loss		<u>(145,701)</u>	<u>(13,776)</u>
Other finance income - pensions	24	382	-
Finance costs	6	(737)	(822)
Loss on ordinary activities before taxation		<u>(146,056)</u>	<u>(14,598)</u>
Income tax (expense)/benefit	9	14,476	1,819
Loss for the financial year		<u>(131,580)</u>	<u>(12,779)</u>

All results derive from continuing operations.

* Restated: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to the application of IFRS15 Revenue. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £254,930,000 and a reduction in the profits on ordinary activities before income tax by £9,790,000. Please see note 25 to the financial statements for further details.

The notes on pages 18 to 63 form an integral part of these financial statements.

Babcock Land Defence Limited

Statement of Comprehensive Income
for the Year Ended 31 March 2021

	2021 £000	2020 £000 Restated*
(Loss) for the financial year	(131,580)	(12,779)
Loss on re-measurement of net defined benefit obligation	(8,165)	-
Taxcharge on net defined benefit obligation	1,551	-
Total other comprehensive income	(6,614)	-
Total comprehensive (expense)	(138,193)	(12,779)

* Restated: The prior year numbers have been restated due to changes in accounting policies and errors identified, primarily in relation to the application of IFRS15 Revenue. These restatements result in an increase in the loss in the year ended 31 March 2020 by £9,843,000. Please see note 25 to the financial statements for further details.

The notes on pages 18 to 63 form an integral part of these financial statements.

Babcock Land Defence Limited

Balance sheet <i>as at 31 March 2021</i>	Note	2021 £000	2020 <i>Restated*</i> £000
Non Current Assets			
Intangible assets	10	2,178	87,910
Tangible fixed assets	11	368	6,053
Right-of-use assets	12	877	9,324
Trade and other receivables	15	-	1,625
Deferred tax asset	18	1,152	-
		<u>4,575</u>	<u>104,912</u>
Current assets			
Inventories	14	6,071	7,246
Pension scheme surplus	24	2,350	-
Trade and other receivables	15	39,681	49,821
Cash and cash equivalents		48,708	3,752
		<u>96,810</u>	<u>60,819</u>
Current liabilities			
Trade and other payables	16	(164,843)	(85,759)
Lease Liabilities	17	(3,547)	(2,322)
Net current liabilities		<u>(71,580)</u>	<u>(27,262)</u>
Total assets less current liabilities		<u>(67,006)</u>	<u>77,650</u>
Non-current liabilities			
Lease liabilities	17	(6,853)	(7,489)
Deferred tax liability	18	-	(12,845)
Provisions for liabilities	19	(3,540)	(2,950)
Net (liabilities)/assets		<u>(77,399)</u>	<u>54,366</u>
Equity			
Called up share capital	20	-	-
Share premium account	20	47,619	47,619
Retained (Accumulated Losses)/earnings		(125,018)	6,747
Total shareholder's funds		<u>(77,399)</u>	<u>54,366</u>

* 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. These restatements result in a reduction of revenue in the year ended 31 March 2020 by £254,930,000 and a decrease in the total shareholders' funds by £30,503,000 as at March 2020. Please see note 25 to the financial statements for further details.

The notes on pages 18 to 63 are an integral part of these financial statements. The financial statements on pages 14 to 63 were approved by the board of directors and signed on its behalf by:



L Atkinson
Director

Date 17 April 2023

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

	Note	Called up share capital account £000	Share premium account £000	(Accumulated losses) / Retained earnings £000	Total shareholders' funds £000
At 1 April 2019 as previously stated		-	147,619	(9,814)	137,805
Prior Year Adjustment (see note 25)		-	-	(20,660)	(20,660)
At 1 April 2019 restated		-	147,619	(30,474)	117,145
Loss for the financial year as previously stated		-	-	(2,936)	(2,936)
Prior Year Adjustment (see note 25)		-	-	(9,843)	(9,843)
At 31 March 2020 restated		-	147,619	(43,253)	104,366
Reduction in Capital	20	-	(100,000)	100,000	-
Capital Repayment	20	-	-	(50,000)	(50,000)
At 31 March 2020 restated		-	47,619	6,747	54,366
Loss for the financial year		-	-	(131,580)	(131,580)
Other comprehensive income		-	-	(6,614)	(6,614)
Capital contribution from parent	27	-	-	6,429	6,429
Total comprehensive (loss)		-	-	(131,765)	(131,765)
At 31 March 2021		-	47,619	(125,018)	(77,399)

Babcock Land Defence Limited

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

1. General Information

Babcock Land Defence 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 in the period presented.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 (FRS101), the reduced disclosure framework. This year the presentation has changed from the Companies Act format to an Adapted format. This has resulted in the transfer of debtors due in more than 12 months from current assets to non-current assets.

These financial statements are prepared on a going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000, unless stated otherwise.

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 Land Limited and of its ultimate parent, Babcock International Group PLC. The results are 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 and the shareholders of the Company have been notified accordingly:

- 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 paragraph 120 of IFRS 15 Revenue from Contracts with Customers.
- f) The requirements of paragraph 52 of IFRS 16 Leases.
- g) The following paragraphs of IAS 1, 'Presentation of financial statements':

Notes to the financial statements (continued)

2.Summary of significant accounting policies (continued)

Basis of preparation (continued)

- 10(d), 10(f), 16, 38 (a) – 38 (d), 40 (a) – 40 (d), 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.

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.

Going concern

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.

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

- a) reviewed the future profitability of the Company. Forecast have been prepared until the end of each of the secured contracts.
- b) stated that all new contracts will be traded through Babcock Land Defence Limited.
- c) obtained a letter of support from Babcock International Group PLC whose accounts appear on Companies House. 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 for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Revenue

Revenue 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. IFRS 15, Revenue requires the identification of performance obligations in contracts, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

a) Performance obligations

Contracts are assessed to identify each promise to transfer 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.

Notes to the financial statements *(continued)*

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

Revenue *(continued)*

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

Series guidance

Under IFRS15 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.

b) Determination of contract price

The contract price represents the amount of consideration which the Company expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims, and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/overspends are shared with the customer. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to the specific period when the service is delivered. Where variable consideration is allocated to a specific service this will typically be in relation to performance related deductions. The Company's contracts typically do not include significant financing components.

Where variable consideration is included in the total transaction price, variable consideration is estimated at contract inception and at the end of each reporting period. Any required adjustment is made to the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts.

c) Allocation of contract price to performance obligations

Where contract modifications have been treated as separate contracts, as they result in a change to the contract scope and bring in additional distinct services, the price is allocated at their stand-alone selling price.

Notes to the financial statements *(continued)*

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

Revenue *(continued)*

d) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services are 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.

Revenue recognised over time

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering, and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as 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 performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised.

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods, and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Company.

Notes to the financial statements *(continued)*

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

Revenue *(continued)*

Assessment of contract profitability

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.

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational, and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured a provision. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations

The Company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise because of customer requests or instructions or from requests from the Company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

The Company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract; or
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract

Notes to the financial statements *(continued)*

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

Revenue *(continued)*

modifications. In approving contract modifications in these circumstances, the Company considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed. Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

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.

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.

Principal versus agent considerations

The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Company controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share 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. Sale of goods revenue is recognised as 'agent' for the period of the contract from the point of transition of direct supplier payment from the MoD to the Company on the DSG Inventory and Repair management contract. The balances associated with the I&RM service are presented gross in the balance sheet with the amounts payable to suppliers presented as accruals and the equivalent amounts recoverable from the customer presented as contract assets.

Intangible assets

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

Notes to the financial statements (continued)

2.Summary of significant accounting policies (continued)

Intangible assets (continued)

a) Acquired intangibles

The acquired contract intangible is the estimated fair value at the date of acquisition from the MoD of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation period of 10 years represents the length of the contract in this case. The carrying value of the acquired intangibles is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less costs to sell or value in use.

b) Computer software

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

Computer software 9-10 years

In 2020 computer software was depreciated on a straight line, basis over 3 years. However, all of the existing assets are fully depreciated and there have been additions with the acquisition of the RSME contract which are being depreciated over the above useful lives. Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the computer software may not be recoverable.

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:

Plant and equipment 6.6% to 33.3%

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

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

Inventories and work in progress

Inventory is valued at the lower of cost and net realisable value. To more accurately reflect the movement of goods through the stores and costs, effective from the start of FY21 the Company has moved from First In First Out method of charging costs to a Moving Average Price. The impact of this change is not material to the financial statements.

Notes to the financial statements *(continued)*

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

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 MoD.

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.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the statement of financial position, 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.

Taxation

a) Current income tax

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

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

Notes to the financial statements *(continued)*

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

Taxation *(continued)*

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

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

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity, in which case the tax is also recognised in other comprehensive income or directly in equity respectively.

Pensions costs and other post-retirement benefits

The Company participates in the MyCSP scheme of the Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay). The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore, the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

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

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to 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.

Upon the transfer of the RSME contract to Babcock Land Defence Limited the pension surplus on the Babcock International Group pension scheme was part of the sale agreement and so this

Babcock Land Defence Limited

Notes to the financial statements *(continued)*

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

surplus which is now part of Babcock Land Defence Limited has been recognised as part of the capital contribution made by Babcock Land Limited to Babcock Land Defence limited recognised in the year.

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 period end exchange rates.

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

Lessee accounting

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. 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.

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.

Dilapidation provisions for general wear and tear costs are charged to the income statement on a straight-line basis, over the contracted lease term.

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.

Notes to the financial statements (continued)

2.Summary of significant accounting policies (continued)

Provisions for liabilities (continued)

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

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 on the basis of estimated results on completion of contracts and are contract assessments are updated regularly.

Exceptional items

Exceptional items are those which are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional to appropriately represent the Company's underlying business performance.

Business combinations under common control

Where a business combination takes place in which all the combining entities are ultimately controlled by the same party, both before and after the combination, the book value method is applied to the assets and liabilities at the date of transfer and recognised separately. The receiving entity recognises within equity any difference between the consideration paid and the book value of the assets and liabilities received. Where the consideration paid is lower than the value of the net assets transferred, this is considered to be a capital contribution from the selling party to the receiving party.

3.Critical accounting estimates and judgements

The application of the Company's accounting policies requires the use of judgements and estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuous 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:

Revenue

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing, and the contractual terms. The Company makes estimates and judgements in relation to the future cost savings and margin growth, and, to the extent these

Notes to the financial statements *(continued)*

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

Revenue *(continued)*

assumptions are not achieved, revenue will be negatively impacted. Revenue and profit recognition estimates on long term contracts can involve significant levels of estimation uncertainty. 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. Significant parts of these judgements relate to cost estimation to completion of contracts. The assessments of all significant contracts are subject to review and challenge.

As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

The Company uses the percentage of completion method of revenue recognition for 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 result in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

Senior management feel there is a strong probability that the DSG contract will be extended. However, as at the year end the official notification from the MoD was yet to be received and so the effect of this extension has not been put through the accounts.

Principal and Agent

The revenue recognition policy has been re-examined for the presentation of revenue and cost of revenue in relation to I&RM pass-through revenue on the Company's DSG contract. The Company had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the financial statements for the year ended 31 March 2020. Following further consideration at group level, the Company has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for this element of the contract. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and cost of revenue of £219,800,000 in the year ended 31 March 2020. There is no impact to reported profit or cash flow as a result of this adjustment.

Contract Modifications

The DSG contract customer has identified two separate key amendments in the contract terms and conditions document, these are described as the:

- Leconfield Services (31 March 2017); and
- 1 (UK) Div. Services (29 June 2018).

These amendments represent possible modifications to the contract and are considered further below against the contract modification guidance in IFRS 15.

Notes to the financial statements *(continued)*

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

Contract Modifications *(continued)*

The nature of these additional services is distinct from those that were agreed with the customer at the inception of the original contract. These modifications resulted from a change in the contract scope to bring in additional, distinct services at a price reflecting their stand-alone selling price. Management has considered, IFRS 15 paragraph 20 and exercised judgement to conclude that these modifications should be accounted for as separate contracts. The pricing is deemed to be stand-alone otherwise it would have disadvantaged one or other of the parties. The modifications were not treated as separate contracts in previous years and therefore this error has been restated in these financial statements in regards to prior years (see note 25).

Series Guidance

The total contractual price on the DSG contract contains elements of variable revenue. The variable revenue includes KPIs debits and credits, gain share and discretion fees that are effectively a reduction of revenue if certain targets are met, and other volume based variable revenue components.

In addition, there have been other changes to the contract since inception that need consideration. These changes include those arising from:

- Annual Plans (changes in annual volumes to meet the Army's requirements)
- Other Contract Amendments namely IFM, Incentivised Fleet Management

As the service meets the criteria for satisfaction over a period of time and as the services have the same pattern of transfer to the customer, across annual time periods, these meet the IFRS 15 para 23 criteria for a series of distinct goods or services.

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

Assuming that IFRS 15, Revenue, 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 considerations are 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. In previous years, these elements of revenue were included as part of a single performance obligation in the long term contract accounting model, but the policy set out above has been adopted in the current year. This has led to a prior year accounting policy change (see note 25).

Notes to the financial statements *(continued)*

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

Balance sheet review

As part of the contract profitability and balance sheet review, management has reassessed the liabilities of the Company, including the measurement of contract liabilities. This assessment has been made based on the findings from the detailed, risk-based review of the Group's contracts and sector balance sheets and has resulted in the recognition of a contract liability and a charge to the income statement. This relates to the DSG contract, which resulted from the reassessment of variable revenues following publication of the Integrated Spending Review and reassessment of cost savings achievable under the contract reflecting delays in implementation of efficiency programmes because of COVID-19.

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 24 for the disclosures of the defined benefit pension scheme.

Estimated impairment of intangible asset

The Company tests annually whether the value of the intangible asset has suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use (VIU) calculations, which includes assumptions of future organic growth and new business. A few factors have led to a reduction in margin on the DSG contract. These included:

- i. Reduced volumes from the customer leading to a loss of new business and loss of gain share
- ii. Additional labour costs following productivity targets not being met. These targets are dependent upon transformation goals being met and the volumes given by the customer.
- iii. Inflationary pressures greater than that provided in the contract
- iv. Additional inventory provisioning
- v. Additional redundancy costs
- vi. A lack of commitment to five option years from 2025 by the customer
- vii. The loss of margin from the transition of the contract from a manage, maintain, and overhaul the fleet to an availability model.

These factors led to an impairment of the carrying value of the contract intangible. As a result, the carrying value of the contract intangible was impaired to nil value as at 31 March 2021.

Leases where the MoD is the landlord

The company has several lease contracts relating to the DSG contract where the landlord is the MoD, who are also the customer. However, in management's judgement, the company has the right to obtain substantially all of the economic benefits of the asset and direct the use of the assets. These therefore fall under the definition of a lease under IFRS 16. A lease liability and right of use asset has been recognised, and the costs of the lease are recorded within expenses.

Babcock Land Defence Limited

Notes to the financial statements (continued)

4. Revenue

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

	2021	2020
	£000	£000
		*Restated
DSG contract	82,143	121,747
RSME contract	69,984	-
Germany contract	12,050	-
	<u>164,177</u>	<u>121,747</u>

The prior year figures have been restated following IFRS15 revenue recognition. The 2020 figures have been reduced by

- £219,800,000 reflecting the sales of goods as the Company acting as the agent and not the principal in the transaction.
- £1,200,000 being the impact of making the accounting policy change to exclude annual plan not yet contracted and other variable consideration volumes from the main SPTC contract.
- £22,400,000 Reversing the revenue taken from selling inventory purchased from MoD stores.
- £3,530,000 due to the netting off of costs and revenue from the same third party.
- £8,000,000 being the effect of separating some contracts into separate performance obligations as they either have different customers or different scope of services.

Please see note 25 for further details.

As set out in the accounting policies and note 25, revenue in relation to the DSG services is now considered to derive from several different contracts in accordance with IFRS 15. Reference to the "DSG Contract" throughout the Annual Report refers to all of these contracts together.

5. Operating loss

	2021	2020
	£000	£000
		*Restated
Operating loss is stated after charging/(crediting):		
Interest on lease liabilities (note 6)	461	503
Employee costs (note 7)	80,481	66,332
Amortisation charge on intangible assets (note 10)	16,515	14,095
Impairment of intangible assets (note 10)	65,662	-
Depreciation - property, plant & equipment (note 11)	2,049	2,546
Impairment of property, plant and equipment (PPE) (note 11)	5,274	-
Depreciation - right of use assets (note 12)	2,946	2,407
Impairment of right of use assets (note 12)	9,067	-
Operating lease charges – short term leases	16	39
*Stock expensed charged to cost of sales other	31,790	32,006
(Profit)/loss on disposal of fixed assets	(10)	(10)
**Fees for audit services payable to the Company's auditor	47	40

Notes to the financial statements (continued)

5. Operating loss (continued)

* The 2020 figure has been restated. See note 25 for details.

**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.

6. Finance costs

	2021	2020
	£000	£000
Bank interest paid	(276)	(319)
Interest on lease liabilities	(461)	(503)
	<u>(737)</u>	<u>(822)</u>

7. Staff costs

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

By Activity:	2021	2020
	Number	Number
Operational and technical	2,019	1,647
Management and administration	19	31
	<u>2,038</u>	<u>1,678</u>

Their aggregate remuneration comprised:

	2021	2020
	£000	£000
Wages and salaries	63,247	53,294
Social security costs	6,186	4,882
Other pension costs	11,048	8,156
	<u>80,481</u>	<u>66,332</u>

Included in other pension costs are £1,006,000 (2020: £nil) in respect of defined benefit schemes and £10,004,000 (2020: £7,505,000) in respect of the defined contribution scheme. The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

Babcock Land Defence Limited

Notes to the financial statements (continued)

8. Directors' Remuneration

The remuneration of the directors which was paid by the Company was as follows:

	2021 £000	2020 £000
Emoluments (including benefits-in-kind)	314	233
Defined contribution pension scheme	14	-
	<u>328</u>	<u>233</u>

The above amount for remuneration includes the following in respect of the highest paid director:

	2021 £000	2020 £000
Emoluments (excluding pension contributions)	117	233
Company pension contributions	6	-
	<u>123</u>	<u>233</u>

Except for three (2020: one) directors, all the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements.

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

Notes to the financial statements (continued)

9. Income Tax

	2021 £000	2020 £000
Current tax		
UK Corporation tax on losses for the year	-	-
Deferred tax (Note 18)		
Origination and reversal of timing differences	(14,515)	(2,958)
Adjustment in respect of prior year	39	(524)
Impact of change in UK tax rate	-	1,663
Tax on (loss)/profit on ordinary activities	(14,476)	(1,819)

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:

	2021 £000	2020 £000
Loss before taxation	<u>(146,056)</u>	<u>*Restated (14,598)</u>
Tax on profit at standard UK corporation tax rate of 19% (2020: 19%)	(27,751)	(2,774)
Effects of:		
(Income not taxable)/Expenses not deductible for tax purposes	3	13
Group relief (claimed)/surrendered for nil consideration	13,233	(198)
Adjustments in respect of deferred tax for prior years	39	(524)
Impact of change in the UK tax rate	-	1,664
Total tax credit for the year	(14,476)	(1,819)

As set out in note 25, the 2020 result has been restated, resulting in a restatement of the tax rate reconciliation above. The company plans to re-submit the group relief arrangements for 2020 as a result of these changes.

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

Notes to the financial statements (continued)

10. Intangible assets

	Software £000	Acquired contract intangible £000	Total £000
Cost			
At 1 April 2020	17,935	140,951	158,886
Acquisition of RSME contract	1,685	-	1,685
Additions in year	3,267	-	3,267
Disposals at cost	(9,008)	-	(9,008)
At 31 March 2021	13,879	140,951	154,830
Accumulated amortisation and impairment			
At 1 April 2020	(501)	(70,475)	(70,976)
Charge for the financial year	(2,420)	(14,095)	(16,515)
Impairment charge	(9,281)	(56,381)	(65,662)
Disposals	501	-	501
At 31 March 2021	(11,701)	(140,951)	(152,652)
Net book value			
At 31 March 2021	2,178	-	2,178
At 31 March 2020	17,434	70,476	87,910

The acquired contract intangible is the estimated fair value at the date of acquisition from the MoD of customer relationships which are contractual, represented by the value of the acquired order book. The carrying value of the contracted element was amortised straight-line over the remaining period of the orders that are in process which is ten years

The bulk of current year software additions relate to a SAP ERP system which was formally commenced as a project in 2018 with the purpose of replacing the legacy accounting system as well as having an integrated ERP system across the broader Babcock group. The software was successfully rolled out in May 2020 to DSG and in September 2020 for RSME. The disposal relates to the element of the SAP ERP system, to another company within the Babcock Group, which was deemed to have a shared benefit across the companies who use the ERP system across the Group. Its key objective is to improve processes and procedures to provide a better customer service and more efficient processes.

Following reassessment of variable revenues under the contract following publication of the Integrated Spending Review, and removal of targeted future cost savings under the contract, in line with an assessment under IAS 36, both intangible asset categories were significantly impaired with impairments of £56.4 million and £9.3 million respectively.

Effective 1 April 2020, the RSME contract was novated to Babcock Land Defence Limited from Babcock Land Limited, the immediate parent company. Included in the assets and liabilities acquired was an intangible asset primarily related to acquired know how from a smart buildings solution. There was also a small amount of intangible asset acquired relating to the development of the SAP ERP system specific to the RSME contract itself.

Notes to the financial statements *(continued)*

11. Property, plant, and equipment

	Property, plant & equipment £000
Cost	
At 1 April 2020	14,082
Additions in year	1,914
Disposals in year	(636)
At 31 March 2021	<u>15,360</u>
Accumulated depreciation	
At 1 April 2020	(8,029)
Depreciation	(2,049)
Impairment	(5,274)
Disposals in year	360
At 31 March 2021	<u>(14,992)</u>
Net book value:	
At 31 March 2021	<u>368</u>
At 31 March 2020	<u>6,053</u>

Property, plant, and equipment was impaired following an assessment of DSG contract profitability. Property, plant, and equipment directly attributable to the DSG contract was impaired to the value of £5.3 million, consisting of leasehold property £1.9 million and plant and equipment £3.4 million. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removal of targeted future cost savings in line with an assessment under IAS 36.

Notes to the financial statements (continued)

12. Right-of-use assets

The Company has lease contracts for various offices, warehouses, equipment, and tools used in the operations. The amounts recognised in the financial statements in relation to the leases are as follows:

	Property £000	Plant & machinery £000	Total £000
Cost			
At 1 April 2020	15,018	2,004	17,022
Additions	572	3,038	3,610
Disposals	-	(1,220)	(1,220)
At 31 March 2021	15,590	3,822	19,412
Accumulated depreciation			
At 1 April 2020	(6,956)	(742)	(7,698)
Charge for the year	(1,675)	(1,271)	(2,946)
Impairment	(6,627)	(2,440)	(9,067)
Disposals	-	1,176	1,176
At 31 March 2021	(15,258)	(3,277)	(18,535)
Net book value:			
At 31 March 2021	332	545	877
At 31 March 2020	8,062	1,262	9,324

ROU assets were impaired following an assessment of DSG contract profitability. ROU assets directly attributable to the DSG contract was impaired to the value of £9.1 million. The impairment test reassessed variable revenues under the contract following publication of the Integrated Spending Review and removal of targeted future cost savings in line with an assessment under IAS 36.

13. Investments

	2021 £	2020 £
Acquired during the year	1	-
Impairment	-	-
At 31 March 2021	1	-

The shares in group undertakings represents 100% of the shares in Peterhouse GmbH, whose registered office is AmZoppenberg 23, 41366 Schwalmtal, Germany. The directors believe the carrying value of the investment is supported by the value in use of the underlying asset.

Notes to the financial statements (continued)

14. Inventories

	2021 £000	2020 £000
		* Restated
Raw materials and consumables	6,071	7,246
	<u>6,071</u>	<u>7,246</u>

*2020 has been restated to remove £11,300,000 due to recognising that the Company is only agent and not principal in the DSG I&RM contract, see note 25.

In DSG the required inventory provision was reassessed and increased by £5.6 million based on the latest information including consideration of a lower usage of inventory due to the impacts of COVID-19. This was recognised as an expense during the year ended 31 March 2021 and included in cost of sales in the income statement.

15. Trade and other receivables

	2021 £000	Restated* 2020 £000
Amounts falling due within one year:		
Trade receivables	8,167	11,105
Contract balances	19,264	36,541
Amounts owed by Group undertakings	10,671	430
Other receivables	36	43
Corporation tax	1,102	866
Prepayments	441	836
	<u>39,681</u>	<u>49,821</u>
Amounts falling due after more than one year:		
Contract balances	-	1,625
	<u>-</u>	<u>1,625</u>

There is a reduction of £11.1 million in the prior year receivables contract balances resulting from both changes in accounting policies and errors resulting from a reassessment of IFRS15, Revenue, and principal vs agent considerations please see note 25.

The prior period balance sheet has been restated with £5.1 million of 2019 expenditure previously classified as prepayments being written off to cost of sales in 2019. These were bid costs capitalised as fulfilment costs relating to expenditure in 2019, see note 25.

Notes to the financial statements (continued)

15.Trade and other receivables (continued)

	Amounts due for contract work 2021 £000	Accrued income 2021 £000	Capitalised contract costs 2021 £000	Total 2021 £000
At 1 April 2020 (as previously stated)	15,848	31,793	1,625	49,266
Prior year adjustment (see note 24)	(11,100)	-	-	(11,100)
At 1 April 2020	4,748	31,793	1,625	38,166
Transfers from contract assets recognised at the beginning of the year to receivables	(4,748)	(31,794)	-	(36,542)
Increase due to work done not transferred from contract assets	869	17,987	-	18,856
Amortisation of contract assets	-	-	(1,216)	(1,216)
At 31 March 2021	869	17,986	409	19,264

16.Trade and other payables

	2021 £000	Restated* 2020 £000
Amounts falling due within one year:		
Trade Payables	32,014	29,493
Amounts owed to group undertakings	29,944	4,303
Contract balances	46,716	-
Other taxation and social security	1,757	10,044
Goods received not invoiced	19,202	21,705
Accruals	35,210	20,214
	164,843	85,759

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

*For the year ended 31 March 2020 £15.1m has been reclassified from contract liabilities to accruals reflecting balances that have been determined as accrued third party supplier costs.

Babcock Land Defence Limited

Notes to the financial statements *(continued)*

16.Trade and other payables *(continued)*

	Contract balances £000
At 31 March 2020	-
RSME contract acquisition	6,709
Amounts accrued	40,006
Amounts utilised	-
At 31 March 2021	<u>46,716</u>

17.Lease liabilities

The Company leases various offices and warehouses under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases.

Amounts recognised in the statement of financial position:

	2021 £000	2020 £000
Current	3,547	2,322
Non-current	6,853	7,489
Carrying value of liability as at 31 March	<u>10,400</u>	<u>9,811</u>

Notes to the financial statements (continued)

17. Lease liabilities (continued)

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

	2021	2020
	£000	£000
Not later than one year	3,547	2,322
Later than one year and less than five years	6,853	7,444
More than five years	-	45
Carrying value of liability as at 31 March	<u>10,400</u>	<u>9,811</u>

Expenses relating to short-term leases (included in administrative expenses) for the year was £15,952 (2020: £39,358). Lease payments of £3,240,000 (2020: £2,781,000) were paid in the year in relation to leases accounted for under IFRS16.

18. Deferred tax

The major components of the deferred tax liability are as follows:

	Accelerated capital allowances	Retirement benefit obligations	Other timing differences	Acquired intangibles	Total
	£000	£000	£000	£000	£000
At 1 April 2019 liability	288	-	-	14,376	14,664
- Credited to the Income statement	(710)		(122)	(987)	(1,819)
At 31 March 2020 liability restated	(422)	-	(122)	13,389	12,845
-RSME transfer from Babcock Land Limited	-	2,032	-	-	2,032
- Credited to the Income statement	(1,077)	(34)	-	(13,366)	(14,477)
- Charged to the Other Comprehensive Income	-	(1,551)	-	-	(1,551)
At 31 March 2021 asset	(1,499)	446	(122)	23	(1,152)

Babcock Land Defence Limited

Notes to the financial statements (continued)

19. Provisions for liabilities

The 2019 and 2020 provisions have been restated following a review of the dilapidation costs, see note 25.

	Dilapidation provisions £000	Total £000
At 1 April 2019	-	-
Prior year adjustment	2,360	2,360
At 1 April 2019 restated	2,360	2,360
(Credited)/charged to the income statement	590	590
At 31 March 2020 restated	2,950	2,950
(Credited)/charged to the income statement	590	590
At 31 March 2021 (asset)/liability	3,540	3,540

20. Called up share capital

	2021 Share capital £	2021 Share premium £	2020 Share capital £	2020 Share premium £
Allotted, called-up and fully paid				
100 ordinary shares of £1 each	100	-	100	-
100 shares of £476,190 each	-	47,619,000	-	147,619,000
Reduction of Share Capital	-	-	-	(100,000,000)
At 31 March	100	47,619,000	100	47,619,000

On 23 March 2020, the directors of Babcock Land Defence Limited approved a special resolution to carry out a reduction of share capital whereby the Company's share premium account was reduced from £147,619,000 to £47,619,000.

The capital reduction was carried out by the declaration of a capital repayment to Babcock Land Defence Limited of £50,000,000 and a reduction of its inter-company loan to Babcock Land Limited of £32,329,100 and a cash settlement of £17,671,000.

As a result, the Company's share premium was reduced by £100,000,000, the Company's Profit & Loss Reserves were increased by £50,000,000 and the Company repaid £50,000,000 of Babcock Land Limited's investment in the Company.

The Capital Reduction was carried out by way of the solvency statement procedure under section 641(1) (a) of the Companies Act 2006 (CA2006).

Notes to the financial statements (continued)

21. Guarantees and financial commitments

Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (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).

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

22. Related party transactions

The Company has applied the exemptions available 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 consolidated financial statements are publicly available.

23. Subsequent events

Effective from 1 April 2021, the Phoenix II and Babcock Contract Hire contracts were novated from Babcock Land Limited to Babcock Land Defence Limited. This included all the assets and liabilities of the business for a consideration £547,758 which was net asset value at transfer date. The Company is also supporting the UK MOD's short-term operational requirements in Eastern Europe, including demand for training and equipment refurbishment.

24. Pension scheme surplus

Defined Contribution Schemes

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 operated two defined contribution schemes. The pension charge for the year includes contributions payable by the Company to these funds:

	2021	2020
	£000	£000
Babcock Defined Contribution Scheme	3,074	716
Civil Service Pension Scheme	6,930	6,789
	10,004	7,505

On 31 March 2021, there was a creditor of £nil (2020: £nil) relating to unpaid pension contributions included within accruals in the statement of financial position.

Civil Service Pension Scheme

Employees transferred from the DSG Trading Fund are entitled to continuing membership of the My Civil Service Pension Scheme (MyCSP) part of the Government of Great Britain Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay).

Notes to the financial statements *(continued)*

24. Pension scheme surplus *(continued)*

The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore, the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

The latest actuarial valuation of the PCSPS was as at 31 March 2016 which identified that the scheme had a notional past service deficit of £6.3bn.

The pension contributions paid by the Company to the MyCSP scheme are paid at an average rate 27.06% (2020: 27.06%) of pensionable pay. The Company expects to continue to pay contributions of an average rate of 27.06% of pensionable pay in the next financial year.

Babcock Defined Benefit Scheme

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. This pension scheme transferred with the purchase of the RSME contract.

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

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

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

Notes to the financial statements (continued)

24. Pension scheme surplus (continued)

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

The expected total employer contributions to be made by participating employers to the scheme in 2021/22 are £29.4 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 £29.4 million is £22.9 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.

The mortality assumptions used were:

	2021	2020
	Years	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 as at 31 March 2021 and the changes to the Babcock International Group Plc income statement for the year to March 2021, if the assumptions were sensitised by the amounts below, would be:

Notes to the financial statements (continued)

24. Pension scheme surplus (continued)

	Defined benefit obligations 2021 £000	Income statement 2021 £000
Initial assumptions	1,421,689	8,841
Discount rate assumptions increased by 0.5%	(96,533)	(3,265)
Discount rate assumptions decreased by 0.5%	96,533	2,289
Inflation rate assumptions increased by 0.5%	57,721	1,819
Inflation rate assumptions decreased by 0.5%	(52,887)	(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)
Pension Scheme Surplus	17,481	110,584

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	(53,800)	(65,642)

Notes to the financial statements *(continued)*

24. Pension scheme surplus *(continued)*

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

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

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

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

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £1,255,000 (2020: £nil), for service cost and incurred expenses, and net interest income of £382,000 (2020: £nil). The employees on the RSME contract were in the pension scheme in 2020 but were included within Babcock Land Limited pension figures. Upon transfer of the RSME contract to Babcock Land Defence on 1 April 2020 the pension figures are included within the Company in 2021.

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")

	2021 £000	2020 £000
Actuarial (loss)/gain recognised in the SOCI	(117,988)	56,807
Experience losses	(9,021)	(6,371)
Other gains/(losses)	13,418	(4,088)
	(113,591)	46,348

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement is £8,165,000 (2020: Nil).

The equity investments and bonds are valued at bid price.

Notes to the financial statements *(continued)*

24. Pension scheme surplus *(continued)*

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

	2021	2020
	£000	£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	1,492,970	1,453,019

Reconciliation of present value of scheme liabilities

	2021	2020
	£000	£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	1,421,689	1,276,793

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was £2,350,000 (2020: £nil).

Notes to the financial statements *(continued)*

25. Prior year adjustments

25.1 Errors made

There are a number of errors made in the prior year accounts. These include the following:

Bids costs treated as fulfilment costs

Following a re-assessment of costs capitalised in prior years, a prior year adjustment was required of £5,100,000 to treat the bid costs incurred in 2019 as costs to obtain a contract, rather than costs to fulfil a contract, and therefore expense the costs in previous years rather than capitalising them.

Dilapidation costs

On the DSG contract, management has completed a review of the dilapidations provision and have judged that a provision needs to be put in place. Management have determined that this should have been in place in all years of the contract at £590,000 per year. At 31 March 2020, the total value of the provision and reduction in net assets was £2,950,000.

Inventory purchased from MoD stores

On the DSG contract, inventory bought from MoD stores was incorrectly classified in previous years as inventory and we have now re-classified as a Contract Asset as the Company is effectively holding this on deposit for the MoD. Inventory amounted to 2021: £12,400,000 (2020: £11,300,000). The associated revenue and costs where the materials are installed on customer's equipment has also been reversed resulting in a £22,400,000 decrease to sales and cost of sales in the year ended 31 March 2020. There is no profit effect or net asset movement because this adjustment.

Separation of contracts and Contract change notifications (CCNs)

On the DSG contract, Babcock entered into the Land Equipment Service Provision and Transformation contract (SPTC) before the implementation of IFRS 15. There were two separate commercial contracts, entered into with different counterparties that were negotiated with this contract, these being:

- Field Electrical Power System (FEPS) provided to Rolls Royce / Barclays Bank;
- Stormer provided to Thales; and

These contracts were combined and traded as if one contract (SPTC) on the transition to IFRS 15, Revenue. The contracts do not meet the requirement for combination under IFRS 15, Revenue, and management are now accounting for these separately. These contracts finished at the end of June 2022. In addition, there were two other significant contract modifications that were previously combined with the SPTC, but management has concluded that these should not have treated in this way. See note 3 for more details.

In the prior year, management included in the SPTC long-term contract accounting model an assumption to reflect anticipated incremental margin, which was expected to arise from future CCNs that had not yet been contracted at the balance sheet date, but were anticipated based on the track record of CCN profitability to date. Having re-assessed the application of IFRS 15, it was deemed more appropriate to exclude this assumption until the CCNs were contracted.

Combined, these decrease the revenue and profits by £8,000,000 in the year ending 31 March 2020. The net assets have decreased by £14,900,000.

Notes to the financial statements *(continued)*

25. Prior year adjustments *(continued)*

25.2 Accounting policy changes

There are a number of changes to key accounting policies made in the prior year accounts. These include the following:

Annual Plan and other variable revenue

As set out in note 3, management has reassessed the application of the 'Series guidance' from IFRS 15 to the DSG contract. The outcome of this is that the variable revenue is now not recognised based on the long term, contract model accounted for over time as a single performance obligation, but rather recognised in the period in which the related activities are performed.

All these adjustments have meant too much revenue has been recognised and we have subsequently reduced revenue and profits by £1,200,000 in the year ending 31 March 2020. The net assets have decreased by £7,500,000.

Agent v Principal

The revenue recognition policy has been re-examined for the presentation of revenue and cost of revenue in relation to pass-through revenue on the Company's DSG contract. The Company had previously taken the judgement that it acted as a principal in these arrangements, informed by the contractual terms and practical delivery of the contract to the customer. This approach was disclosed as a judgemental area in the financial statements for the year ended 31 March 2020. Following further consideration at group level, the Company has reassessed this judgement, which had always been a finely balanced one. This change of judgement, and the resultant accounting policy, means that revenue and cost of revenue are now presented net for this element of the contract. Restatement of the financial information in accordance with the new accounting policy results in a decrease in revenue and cost of revenue of £219,800,000 in the year ended 31 March 2020. There is no impact to reported profit or cash flow as a result of this adjustment.

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Notes to the Financial Statements (continued)

25. Prior year adjustments (continued)

The effect upon the 2020 income statement of these adjustments is as follows:

Income Statement for the Year Ended 31 March 2020	Reported	Errors	Accounting policy	Restated
	2020	2020		2020
	£000	£000	£000	£000
Revenue	373,147	(30,400)	(221,000)	121,747
Cost of sales	(376,061)	21,810	219,800	(134,451)
Gross loss	(2,914)	(8,590)	(1,200)	(12,704)
Administrative expenses	(1,072)	-	-	(1,072)
Finance costs	(822)	-	-	(822)
Loss before income tax	(4,808)	(8,590)	(1,200)	(14,598)
Income tax expense	1,872	(53)	-	1,819
Loss for the financial year	(2,936)	(8,643)	(1,200)	(12,779)

A split of the errors and accounting policy changes are shown on the following pages.

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The split of the prior year errors is as follows:

Income Statement for the Year Ended 31 March 2020	Bid costs treated as fulfillment costs	Dilapidation Costs	Inventory purchased from MoD stores	Other Errors	Total Errors
	2020 £000	2020 £000	2020 £000	2020 £000	2020 £000
Revenue	-	-	(22,400)	(8,000)	(30,400)
Cost of sales	-	(590)	22,400	-	21,810
Gross loss	-	(590)	-	(8,000)	(8,590)
Administrative expenses	-	-	-	-	-
Finance costs	-	-	-	-	-
Loss before income tax	-	(590)	-	(8,000)	(8,590)
Income tax expense	-	-	-	(53)	(53)
Loss for the financial year	-	(590)	-	(8,053)	(8,643)

An analysis of the other errors is as shown below

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The split of the prior year other errors is as follows:

Income Statement for the Year Ended 31 March 2020	Separation of contracts & CCNs	Capital allowances claimed on ROU assets	Total other errors
	2020 £000	2020 £000	2020 £000
Revenue	(8,000)	-	(8,000)
Cost of sales	-	-	-
Gross loss	(8,000)	-	(8,000)
Administrative expenses	-	-	-
Finance costs	-	-	-
Loss before income tax	(8,000)	-	(8,000)
Income tax expense	-	(53)	(53)
Loss for the financial year	(8,000)	(53)	(8,053)

Babcock Land Defence Limited**Notes to the financial statements** *(continued)***25. Prior year adjustment** *(continued)*

The split of the prior year differences due to a change in judgement is as follows:

Income Statement <i>for the Year Ended 31 March 2020</i>	Agent v Principal	Annual plan & variable consideration	Total accounting policy
	2020 £000	2020 £000	2020 £000
Revenue	(219,800)	(1,200)	(221,000)
Cost of sales	219,800	-	219,800
Gross loss	-	(1,200)	(1,200)
Administrative expenses	-	-	-
Finance costs	-	-	-
Loss before income tax	-	(1,200)	(1,200)
Income tax expense	-	-	-
Loss for the financial year	-	(1,200)	(1,200)

Notes to the financial statements *(continued)*

25. Prior year adjustment *(continued)*

The effect upon the statement of other comprehensive income is as follows:

Other comprehensive (expense)/income for the year ended 31 March 2021	Reported	Errors	Accounting policy	Restated
	2020 £000	2020 £000	2020 £000	2,020 £000
(Loss)/Profit for the financial year	(2,936)	(8,643)	(1,200)	(12,779)
Other comprehensive (expense)/income				
Gain on re-measurement of net defined benefit obligation	-	-	-	-
Tax income on net defined benefit obligation	-	-	-	-
(Loss)/Gain on re-measurement of net defined benefit obligation	-	-	-	-
Total other comprehensive (expense)/income	(2,936)	(8,643)	(1,200)	(12,779)

Babcock Land Defence Limited

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The effect upon the 2020 balance sheet of these adjustments is as follows:

Balance Sheet as at 31 March 2020	Reported	Total Errors	Total accounting policy	Restated
	2020 £000	2020 £000	2020 £000	2020 £000
Fixed assets				
Intangible assets	87,910	-	-	87,910
Tangible fixed assets	6,053	-	-	6,053
Right of Use Assets	9,324	-	-	9,324
Trade & Other Receivables	1,625	-	-	1,625
	104,912	-	-	104,912
Current assets				
Pension scheme surplus	-	-	-	-
Inventories	18,546	(11,300)	-	7,246
Trade and other receivables	66,021	(8,700)	(7,500)	49,821
Cash and cash equivalents	3,752	-	-	3,752
	88,319	(20,000)	(7,500)	60,819
Current Liabilities				
Trade and other payables	(85,759)	-	-	(85,759)
Lease Liabilities	(2,322)	-	-	(2,322)
Net current assets	238	(20,000)	(7,500)	(27,262)
Total assets less current liabilities	105,150	(20,000)	(7,500)	77,650
Non-current liabilities				
Lease Liabilities	(7,489)	-	-	(7,489)
Deferred tax liability	(12,792)	(53)	-	(12,845)
Provisions for liabilities	-	(2,950)	-	(2,950)
Net assets/(liabilities)	84,869	(23,003)	(7,500)	54,366
Equity				
Called up share capital	-	-	-	-
Share premium account	47,619	-	-	47,619
Retained earnings	37,250	(23,003)	(7,500)	6,747
Total shareholders' funds	84,869	(23,003)	(7,500)	54,366

Babcock Land Defence Limited

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The effect upon the 2020 balance sheet of these prior year errors is as follows:

Balance Sheet as at 31 March 2020	Bid costs treated as fulfillment costs	Dilapidation Costs	Inventory purchased from MoD stores	Other Errors	Total Errors
	2020 £000	2020 £000	2020 £000	2020 £000	2020 £000
Fixed assets					
Intangible assets	-	-	-	-	-
Tangible fixed assets	-	-	-	-	-
Right of Use Assets	-	-	-	-	-
Trade & Other Receivables	-	-	-	-	-
	-	-	-	-	-
Current assets					
Pension scheme surplus	-	-	-	-	-
Inventories	-	-	(11,300)	-	(11,300)
Trade and other receivables	(5,100)	-	11,300	(14,900)	(8,700)
Cash and cash equivalents	-	-	-	-	-
	(5,100)	-	-	(14,900)	(20,000)
Current Liabilities					
Trade and other payables	-	-	-	-	-
Lease Liabilities	-	-	-	-	-
Net current assets	(5,100)	-	-	(14,900)	(20,000)
Total assets less current liabilities	(5,100)	-	-	(14,900)	(20,000)
Non-current liabilities					
Lease Liabilities	-	-	-	-	-
Deferred tax liability	-	-	-	(53)	(53)
Provisions for liabilities	-	(2,950)	-	-	(2,950)
Net assets/(liabilities)	(5,100)	(2,950)	-	(14,953)	(23,003)
Equity					
Called up share capital	-	-	-	-	-
Share premium account	-	-	-	-	-
Retained earnings	(5,100)	(2,950)	-	(14,953)	(23,003)
Total shareholders' funds	(5,100)	(2,950)	-	(14,953)	(23,003)

Babcock Land Defence Limited

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The effect upon the 2020 balance sheet of these prior year other errors is as follows:

Balance Sheet as at 31 March 2020	Separation of contracts & CCNs	Capital allowances claimed on ROU assets	Total other errors
	2020 £000	2020 £000	2020 £000
Fixed assets			
Intangible assets	-	-	-
Tangible fixed assets	-	-	-
Right of Use Assets	-	-	-
Trade & Other Receivables	-	-	-
	-	-	-
Current assets			
Pension scheme surplus	-	-	-
Inventories	-	-	-
Trade and other receivables	(14,900)	-	(14,900)
Cash and cash equivalents	-	-	-
	(14,900)	-	(14,900)
Current Liabilities			
Lease Liabilities	-	-	-
Net current assets	(14,900)	-	(14,900)
			-
Total assets less current liabilities	(14,900)	-	(14,900)
Non-current liabilities			
Lease Liabilities	-	-	-
Deferred tax liability	-	(53)	(53)
Provisions for liabilities	-	-	-
	(14,900)	(53)	(14,953)
Equity			
Called up share capital	-	-	-
Share premium account	-	-	-
Retained earnings	(14,900)	(53)	(14,953)
Total shareholders' funds	(14,900)	(53)	(14,953)

Notes to the financial statements (continued)

25. Prior year adjustment (continued)

The effect upon the 2020 balance sheet of these prior year changes in judgement is as follows:

Balance Sheet as at 31 March 2020	Agent v Principal	Annual plan & variable consideration	Total accounting policy
	2020 £000	2020 £000	2020 £000
Fixed assets			
Intangible assets	-	-	-
Tangible fixed assets	-	-	-
Right of Use Assets	-	-	-
Trade & Other Receivables	-	-	-
	-	-	-
Current assets			
Pension scheme surplus	-	-	-
Inventories	-	-	-
Trade and other receivables	-	(7,500)	(7,500)
Cash and cash equivalents	-	-	-
	-	(7,500)	(7,500)
Current Liabilities			
Lease Liabilities	-	-	-
Net current assets	-	(7,500)	(7,500)
Total assets less current liabilities	-	(7,500)	(7,500)
Non-current liabilities			
Lease Liabilities	-	-	-
Deferred tax liability	-	-	-
Provisions for liabilities	-	-	-
	-	(7,500)	(7,500)
Equity			
Called up share capital	-	-	-
Share premium account	-	-	-
Retained earnings	-	(7,500)	(7,500)
Total shareholders' funds	-	(7,500)	(7,500)

Notes to the financial statements *(continued)*

26. Exceptional items

Exceptional items are those items which are significant, non-recurring and outside the normal operating practice of the Company.

	2021 £000	2020 £000
Impairment of Intangible asset ^a	65,662	-
Impairment of property, plant & equipment ^b	5,274	-
Impairment of ROU Asset ^c	9,067	-
Total exceptional costs	<u>80,003</u>	<u>-</u>

All of the above items are included in cost of sales.

^a Impairment of intangible assets (note 10) relates to the impairment of the acquired contract intangible and SAP ERP system assets.

^b Impairment of property, plant, and equipment (PPE) (note 11) relates to the impairment of the PPE as directly attributable to the DSG contract.

^c Impairment of right of use assets (note 12) relates to the impairment of the assets directly attributable to the DSG contract.

27. Business combination under common control

On 1 April 2020 the RSME contract which represents a business under common control was acquired by Babcock Land Defence Limited, from its immediate parent company Babcock Land Limited. The assets and liabilities attributable to the contract were acquired at their net value as at that date. The consideration paid was £1. As the value of the net assets of the RSME contract exceeded the value of consideration at the date of acquisition, the gain generated has been recognised directly to equity as a capital contribution from the parent company. The capital contribution totalled £6,429,000, which was recognised directly to equity.

Please see note 10 for details of the intangible assets acquired.

Babcock Land Defence Limited**Notes to the financial statements (continued)****27. Business combination under common control (continued)**

The net book value of the assets and liabilities acquired on 1 April 2020 were as follows:

Balance sheet

	1 April 2020
	£000
Non Current Assets	
Intangible assets	1,685
	<u>1,685</u>
Current assets	
Pension scheme surplus	10,358
Trade and other receivables	1,054
Cash and cash equivalents	12,356
	<u>23,768</u>
Current liabilities	
Trade and other payables	<u>(16,992)</u>
Net current liabilities	<u>6,776</u>
Total assets less current liabilities	8,461
Non-current liabilities	
Deferred tax liability	(2,032)
Net (liabilities)/assets	<u><u>6,429</u></u>
Equity	
Retained (Accumulated Losses)/earnings	6,429
Total shareholder's funds	<u><u>6,429</u></u>

Babcock Land Defence Limited

Notes to the financial statements *(continued)*

28.Ultimate parent undertaking

The immediate parent undertaking is Babcock Land Limited.

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:

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London
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