Babcock Marine (Clyde) Limited

Annual report and financial statements

for the year ended 31 March 2023

Registered number: **SC220243**

Babcock Marine (Clyde) Limited

Company Information

Directors

K Douglas
M D Lawton
S Doherty

Company secretary
Babcock Corporate Secretaries Limited

Registered office
Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Independent auditors

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Contents

Strategic report	**3**
Directors' report	**9**
Independent Auditors report	**13**
Income Statement	**18**
Statement of comprehensive income	**18**
Statement of financial position	**19**
Statement of changes in equity	**20**
Notes to the financial statements	**21**

Strategic report for the year ended 31 March 2023

The Directors present their Strategic report on the Company for the year ended 31 March 2023.

Principal activities

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

Business review

	2023	2022 Restated
	£000	£000
Revenue	**174,149**	157,690
Operating profit	**11,779**	6,507
Net Assets	**33,065**	23,054

Turnover increased in the year from £158m to £174m (10%), primarily driven by an increased volume of projects within the Major Works area, where an increasing number of projects >£100k have arisen relating to maintaining and improving existing Infrastructure. The core delivery of the Submarine programme and Infrastructure of HMNB Clyde has remained stable year on year, with a similar volume of hours and costs against previous year. Despite ongoing threats of inflation which has been factored into our long-term contract position, we showed an improved operating profit growing from £6.5m to £11.8m (increase of £5.3m and 82%) with operating profit margin now at 6.7%. The year-on-year increase in margin % is driven by full transition to the Future Maritime Support Programme ("FMSP").

On 31 March 2023, the directors transferred the trade and assets of the Company to Devonport Royal Dockyard Limited, a fellow subsidiary within the Babcock group. The transfer was at book value for a consideration amount of £34,027k. As a result, the Company has net assets of £33,065k as at 31 March 2023, which relates to the intercompany receivable for the transfer of trade and net assets and balances remaining in the Company per the transfer agreement (taxation, cash and remaining pension liability). The operations and contracts of HMNB Clyde continue to operate under Devonport Royal Dockyard Limited. See Note 19 for further detail on transfer. The directors intend to keep Babcock Marine (Clyde) Limited as a dormant company.

The Company is part of the Nuclear Sector of Babcock International Group PLC ("Babcock") and continues to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's maritime change programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MoD enterprise, whilst ensuring that important naval design, build and support capabilities are retained. The MoD programme is operated under a contractual framework set out in the 15-year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully.

The Future Maritime Support Programme ("FMSP") operated under the ToBA agreement during the financial year. This contract covers Facilities Management on Base, Warship Upkeep, Ships and Submarine fleet time support, along with elements of Engineering Services design activities. Principal activities at Clyde cover Hard Facilities Management, Submarine Fleet time and Ships fleet time. The FMSP contract provides continuity of these activities until March 2026 plus options to extend up to a further 2 years at the end of the core term. FMSP is contracted as four separate Qualifying Defence Contracts ("QDCs") under the Defence Reform Act and is subject to the Single Source Contracting regulations and was signed on 30 September 2021.

Strategic report for the year ended 31 March 2023 (continued)

Business review (continued)

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

The Fleet Operations Directorate has continued to deliver key operational outputs at Clyde. The Health and Safety performance of the team has remained strong despite a significant level of effort being required to manage deteriorating infrastructure. Operations have continued to refer to the Department's Safety Maturity Model and are increasingly using data to identify trends and utilise leading indicators such as 'Time in the Field Walkrounds' and weekly reviews of 'High Risk Operations'. Injuries within the Directorate have trended in line with prior years' performance, however the severity of injuries has been lower. As at end of year, there has not been a RIDDOR injury since March 2022. A further improvement in terms of our safety maturity relates to us now trending damage incident themes. These processes have collectively provided us with useful, communicable data we have been able to engage with our workforce on through 'Time Out For Safety', 'Daily Operational Focus' briefs and H&S Alerts. The Company continues being proactive in managing risks and working hard to ensure we send all our people "Home Safe Every Day" while delivering world class submarine engineering.

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2023.

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. Contractual performance is reviewed on a monthly basis to ensure that risks are mitigated. The regulatory environment is monitored with changes evaluated to understand the potential impact on the business. Political environment is monitored as part of the overall Group process. The Directors manage these risks by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 87 to 103 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2023 (continued)

Key performance indicators

We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2023	2022	
Revenue Increase/(Decrease)	**10.4%**	(20.4%)	Increase in revenue when compared to that of the previous year. See business review on page 3 for further explanation.
Operating Return on Revenue (ORR)	**6.7%**	4.0%	Increase in operating profit when expressed as a percentage of revenue. See business review on page 3 for further explanation.
Total injuries rate per 100,000 hours worked	**1.17**	1.5	Health and Safety is a core value for the Company. The data includes all reported injuries. See business review on page 4 for further explanation of safety focus and performance at the Clyde site.

Strategic report for the year ended 31 March 2023 (continued)

S172(1) Statement and stakeholder engagement

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

a) the likely consequences of any decision in the long term,

b) the interests of the company's employees,

c) the need to foster the company's business relationships with suppliers, customers and others,

d) the impact of the company's operations on the community and the environment,

e) the desirability of the company maintaining a reputation for high standards of business conduct, and

f) the need to act fairly as between members of the company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 56,57 and 115 of the annual report of Babcock International Group PLC, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Directors seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Directors make will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term.

Likely consequence of any decision in the long term

On 31 March 2023, the directors transferred the trade and assets of the Company to Devonport Royal Dockyard Limited, a fellow subsidiary within the Babcock group. This action is part of a Babcock Group simplification initiative and does not impact any long term activity at the Clyde site.

Employees

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting , where practicable an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We are focused on developing and supporting a truly engaged workforce, working on shared goals, united by our common Purpose.

These engagement activities form part of the Group-wide People Strategy as described on pages 20-21 and 74-78 of the annual report of Babcock International Group PLC, Which does not form part of this report.

Business relationships

We are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve

Strategic report for the year ended 31 March 2023 (continued)

Business relationships (continued)

their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company. This is evident by the long-standing relationship we have with the Ministry of Defence. No significant business decisions are expected before the expiry of the current FMSP contract with the MoD. To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 20-21 and 83 – 85 of the annual report of Babcock International Group PLC.

The community and environment

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040.

2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.

3. We will ensure the safety and wellbeing of all our people.

4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.

5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action remains a key focus. Building on our Group wide climate-related risk management process from last year, which considered the following time horizons: short (present to 2030), medium (2030 to 2040), and long-term horizons (2040 to 2100). Sectors and regions considered the insight and recommendations from the KPMG climate-related risk assessment report and identified the immediate actions required in their five-year strategic plans to support corporate commitments. These included Net Zero, wider environmental targets, and to address key climate-related risks and opportunities. These activities form part of the Group-wide ESG Strategy as described on pages 58 – 86 of the annual report of Babcock International Group PLC.

At HM Naval Base Clyde, we work closely with the MoD and other organisations to jointly improve on the environmental impact of the activities at the Base. Additionally, we work collaboratively in support of the local community.

Strategic report for the year ended 31 March 2023 (continued)

This report was approved by the board on 19 August 2024 and signed on its behalf

M Lawton
Director

Directors' report for the year ended 31 March 2023

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2023.

Dividends

A dividend of £nil representing £nil per ordinary share was declared and paid in the year (2022: £nil). No final dividend for the year ended 31 March 2023 has been provided by the Directors (2022: £nil).

Directors and their interests

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

L Brown (resigned 25 April 2024)
K Douglas
D Kieran (resigned 30 November 2023)
M Lawton
I S Urquhart (terminated 31 May 2022)
S Doherty (appointed 31 May 2022)

The Board is not aware of any contract of significance in relation to the Company in which any Director has, or has had, a material interest.

Future developments

Following the transfer of trade and net assets to Devonport Royal Dockyard Limited, a fellow subsidiary of the Babcock group on 31 March 2023, there has been no trading activity in this Company. All taxation balances related to the previous trade have been settled and the directors intend to keep Babcock Marine (Clyde) Limited as a dormant company.

Going concern

The financial statements are prepared on a basis other than going concern as following a Babcock Group simplification initiative the Company transferred its trade and net assets to Devonport Royal Dockyard Limited, a fellow subsidiary of the Babcock group on 31 March 2023. The directors therefore do not consider the going concern basis to be appropriate. No adjustments arose as a result of ceasing to apply the going concern basis.

Directors' report for the year ended 31 March 2023

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discussed in detail within the annual report for Babcock International Group PLC, which does not form part of this report.

Employment of disabled persons

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

Employee involvement

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

Employees

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 20-21 and 74-78 of the annual report of Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 6 of the Strategic 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.

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2023 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

Directors' report for the year ended 31 March 2023 (continued)

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic Report on page 6-7.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

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.

Post balance sheet events

There have been no significant events since the balance sheet date which materially affect the position of the Company.

Statement of disclosure of information to auditors

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

This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

Appointment of auditors

At the 2023 Annual General meeting of Babcock International Group PLC, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 19 August 2024 and signed on its behalf.

M Lawton
Director
SC220243

Statement of Directors' responsibilities

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Babcock Marine (Clyde) Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:
- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 22.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – financial statements prepared other than on a going concern basis

We draw attention to note 2 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of going concern. Our opinion is not modified in respect of this matter.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant pensions and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists, including pensions and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

Revenue and margin recognition on key long-term contracts with significant management judgment

- o Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- o Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- o Analysing historical contract performance and understanding the reason for in-year movements or changes;
- o Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- o Obtaining evidence and challenging management on the assumptions used to calculate future transformational savings;
- o Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- o Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- o Enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- o Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors’ report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors’ report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

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

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 August 2024

Income statement
for the year ended 31 March 2023

	Note	2023	2022
		£000	£000
Revenue	4	**174,149**	157,690
Cost of sales		**(158,008)**	(146,495)
Gross profit		**16,141**	11,195
Administration expenses		**(4,362)**	(4,688)
Operating profit	6	**11,779**	6,507
Finance income	5	**234**	47
Finance costs	5	**(1)**	(1)
Other finance Income – pensions	17	**226**	5
Profit before taxation		**12,238**	6,558
Income tax credit /(expense)	10	**654**	(149)
Profit for the financial year		**12,892**	6,409

Statement of comprehensive Income
for the year ended 31 March 2023

	Note	2023	2022 *Restated
		£000	£000
Profit for the financial year		**12,892**	6,409
Other comprehensive income/(expense): *Items that will not be subsequently reclassified to income statement:*			
(loss)/gain on re-measurement of net defined benefit obligation	17	**(4,119)**	5,558
Tax benefit/(expense) on net defined benefit obligation		**1,238**	(1,686)
Total comprehensive income for the year		**10,011**	10,281

All of the above results derive from discontinued operations.

The notes on pages 21 to 53 are an integral part of these financial statements.

*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Statement of financial position

as at 31 March 2023

	Note	2023 £000	2022 *Restated £000
Non-current assets			
Trade and other receivables	11	**34,027**	62,363
Retirement benefit surpluses	17	**-**	7,354
		34,027	69,717
Current assets			
Trade and other receivables	11	**1,351**	10,532
Cash and cash equivalents	19	**240**	17,486
		1,591	28,018
Current liabilities			
Trade and other payables	12	**(2,344)**	(74,681)
Net current Liabilities		**(753)**	(46,663)
Non-current liabilities			
Pension Deficit	17	**(209)**	-
Net assets		**33,065**	23,054
Capital and reserves			
Called up share capital	13	**-**	-
Retained earnings		**33,065**	23,054
Total shareholders' funds		**33,065**	23,054

The notes on pages 21 to 53 are an integral part of these financial statements.

*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

The financial statements on pages 18 to 53 were approved by the board of Directors on 19 August 2024 and signed on its behalf by:

M Lawton
Director
SC220243

Statement of changes in equity

for the year ended 31 March 2023

	Note	Called up share capital £000	Retained earnings £000	Total shareholders' funds £000
Balance at 1 April 2021		-	**13,630**	**13,630**
Prior year restatement to recognise amounts due to group undertakings *		-	(857)	(857)
Balance at 1 April 2021 as Restated*		-	12,773	12,773
Profit for the financial year		-	6,409	6,409
Other comprehensive Income restated*		-	3,872	3,872
Total comprehensive income restated*		-	10,281	10,281
Balance at 31 March 2022 Restated*		-	**23,054**	**23,054**
Balance at 1 April 2022 Restated*		-	**23,054**	**23,054**
Profit for the financial year		-	12,892	12,892
Other comprehensive expense		-	(2,881)	(2,881)
Total comprehensive income			10,011	10,011
Balance at 31 March 2023			**33,065**	**33,065**

The notes on pages 21 to 53 are an integral part of these financial statements.

*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

The financial statements on pages 18 to 53 were approved by the board of Directors on 19 August 2024 and signed on its behalf by:

M Lawton

Director

SC220243

Notes to the financial statements

1 General information

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

Its ultimate controlling party is disclosed in note 22. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Accounting policies

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

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 ‘Reduced Disclosure Framework (FRS 101)’.

The Company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards and FRS 101 but makes amendments where necessary in order to comply with the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 ‘Reduced Disclosure Framework’ (FRS 101). In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, ‘Share based payments’
b) 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;
c) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
d) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
e) IAS 7, ‘Statement of cash flows’
f) Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’
g) Paragraph 17 of IAS 24, ‘Related party transactions’ in respect of key management compensation
h) The requirements of IAS 24, ‘Related party disclosures’ to disclose related party transactions entered into between two or more members of a group.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

Notes to the financial statements *(continued)*

2 Accounting policies *(continued)*

Basis of preparation *(continued)*

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group PLC, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual and not as a group.

The financial statements have been prepared under the historical cost convention.

Going concern

The financial statements are prepared on a basis other than going concern as following a Babcock Group simplification initiative the Company transferred its trade and net assets to Devonport Royal Dockyard Limited, a fellow subsidiary of the Babcock group on 31 March 2023. The directors therefore do not consider the going concern basis to be appropriate. No adjustments arose as a result of ceasing to apply the going concern basis.

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 2023 that have a material impact on the company's financial statements.

Revenue

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

(a) Performance obligations

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

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(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 (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against 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. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

As part of this judgement, variable consideration may be constrained. The Company recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Company provides, standalone selling prices are generally not observable, and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) Revenue and profit recognition

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

Revenue recognised over 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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Revenue recognised over time *(continued)*

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. See section (h) for further details on how contract assets and liabilities are 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.

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 as provisions. Further detail is included in the Provisions accounting policy.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(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 as a result 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;
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 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).

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Company. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Company's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(f) Costs of obtaining a contract *(continued)*

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified.
ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

(h) Contract assets and liabilities

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company’s control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur, or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 15 for details of contingent liabilities.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Cash and cash equivalents

Company cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

Taxation

(a) Current income tax

Current tax, including corporation 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 reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company’s five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade and other receivables

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Finance costs

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

Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

Employee benefits

a) Pension obligations

Defined benefit schemes

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

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

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using appropriate valuation techniques.

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

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

Defined contribution schemes

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.

b) Share-based compensation

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Employee benefits *(continued)*

c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Financial instruments

a) financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other receivables are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other receivables, the Company measures the provision at an amount equal to 12-month expected credit losses.

Trade and other payables, amounts due to related parties, other payables, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

b) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised.

Dividends

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

Foreign currencies

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company’s functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods.

3 Critical accounting judgements and key sources of estimation uncertainty

In the course of preparation of the financial statements judgements and estimates have been made in applying the Company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting judgements are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the company's key judgements involving estimates are included in the Key sources of estimation uncertainty section

Revenue and profit recognition

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations 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 performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

Key sources of estimation uncertainty

Following the transfer of trade and assets of the Company to Devonport Royal Dockyard Limited, a fellow subsidiary within the Babcock group on 31 March 2023, there are no major sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year except Defined Pension Scheme Obligations as set out below.

Notes to the financial statements *(continued)*

3 Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Defined benefit pension schemes obligations

The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 17.

4 Revenue

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

	2023 £000	2022 £000
By area of activity:		
Provision of services – transferred over time	**174,149**	155,996
Sale of goods – transferred at a point in time	**-**	1,694
	174,149	157,690

All the revenue in the year ended 31 March 2023 originated in the United Kingdom.

5 Finance income and costs

	2023 £000	2022 £000
Finance income:		
Loan interest receivable from group undertakings	**234**	47
	234	47
Finance costs:		
Bank and other interest	**1**	1
	1	1

Notes to the financial statements *(continued)*

6 Operating profit

The auditors' remuneration for the current (2023: £134,000) and prior year (2022: £134,000) has been borne by a fellow group company. Fees paid to the company's auditors, Deloitte LLP and its associates are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

7 Staff costs

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

	2023 Number	2022 Number
By activity:		
Operations	**842**	873
Management and administration	**666**	827
	1,508	1,700

Their aggregate remuneration comprised:

	2023 £000	2022 £000
Wages and salaries	**68,290**	71,614
Social security costs	**7,984**	7,654
Pension costs – defined contribution plans (note 17)	**3,377**	4,732
Pension costs – defined benefit plans (note 17)	**1,664**	2,167
Share based payments (note 9)	**-**	-
	81,315	86,167

8 Directors' remuneration

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

	2023 £000	2022 £000
Remuneration (including benefits in-kind)	**474**	543
Defined contribution pension scheme	**10**	10
	484	553

Notes to the financial statements *(continued)*

8 Directors' remuneration *(continued)*

During the year two (2022: two) directors remunerated by Babcock Marine (Clyde) Limited were entitled to receive share options under long term incentive plans. However, none of directors exercised the share options.

Retirement benefits are accruing for five directors (2022: five) under Group pension schemes.

Except for two (2022: two) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2023	2022
	£000	£000
Remuneration (including benefits in-kind)	**333**	357

No share options exercised in the year.

9 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Babcock Marine (Clyde) Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts, which does not form part of this report.

During the year the total charge relating to employee share-based payment plans was £nil (2022: £nil) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £nil (2022: £nil).

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

Deferred Bonus Matching Plan (DBMP), Performance Share Plan (PSP) and Deferred Bonus Plan (DBP)

Notes to the financial statements *(continued)*

9 Share based payments *(continued)*

Deferred Bonus Matching Plan (DBMP), Performance Share Plan (PSP) and Deferred Bonus Plan (DBP)

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2022 PSP	2,302,009	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 PSP	613,078	351.4	19.0%	6.0	100.0%	–	316.3	55.0%	01/08/22
2022 PSP	806,511	351.4	19.0%	6.0	100.0%	168.7	316.3	55.0%	01/08/22
2022 DBP	218,895	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 DBP	551,420	351.4	19.0%	20.	100.0%	–	351.4	55.0%	01/08/22
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18

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

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

Notes to the financial statements *(continued)*

9 Share based payments(Continued)

A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 140,340 matching shares (2022: 159,494 matching shares) at a cost of £0.4 million (2022: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2022: 4,784 matching shares) and 1,055 matching shares vested (2022: 2,823 matching shares) leaving a balance of 5,918 matching shares (2022: 6,973 matching shares).

10 Income tax expense

	2023	2022
	£000	£000
Analysis of tax expense in the year		
Current tax:		
UK current year expense	**-**	-
Adjustment in respect of prior periods	**-**	-
Deferred tax:		
Origination and reversal of temporary differences	**(654)**	149
Prior year adjustments	**-**	-
Total deferred tax (Credit)/Expenses	**(654)**	149

Notes to the financial statements *(continued)*

10 Income tax expense *(continued)*

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. Deferred tax balances as at 31 March 2022 that are expected to reverse after 1 April 2023 have been calculated at 25%.

Tax expense for the year is lower (2022: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2023 of 19% (2022: 19%). The differences are explained below:

	2023 **£000**	2022 £000
Profit before taxation	**12,238**	6,558
Profit before taxation multiplied by standard UK corporation tax rate of 19% (2022: 19%)	**2,325**	1,246
Effects of:		
Group relief (claimed) for nil consideration	**(2,979)**	(1,097)
Total income tax (credit) /expense	**(654)**	149

Deferred tax

The movements in deferred tax assets and liabilities during the year are shown below.

Deferred tax assets/(liabilities)	**Accelerated capital allowances**	**Retirement benefit obligations**	**Total**
	£000	**£000**	**£000**
At 1 April 2022	1	(1,838)	(1,837)
- Charged to the income statement	**-**	654	654
- Credited to other comprehensive income	**-**	1,236	1,236
At 31 March 2023	**1**	**52**	**53**

Notes to the financial statements *(continued)*

11 Trade and other receivables

	2023 £000	2022 £000
Amounts due after more than one year:		
Amounts due from group undertakings	**34,027**	62,363
	34,027	62,363
Amounts falling due within one year:		
Trade receivables	**-**	6,513
Contract assets	**-**	881
Amounts owed by group undertakings	**-**	1,104
Other receivables	**1,298**	1,461
Deferred tax (Note 10)	**53**	-
Prepayments and accrued income	**-**	573
		-
	1,351	10,532

Amounts due from Group undertakings comprise the following:

- £34,027,000: Consideration amounts due from Devonport Royal Dockyard Limited, unsecured, and repayable on demand.

Trade receivables are stated after provisions for impairment of £nil (2022: £nil).

12 Trade and other payables

	2023 £000	2022 *Restated £000
Amounts falling due within one year:		
Trade creditors	**-**	8,718
Amounts owed to group undertakings	**-**	30,069
Contract Balances	**-**	15,306
Taxation and social security	**2,344**	1,912
Deferred tax (Note 10)	**-**	1,836
Other payables	**-**	2,154
Accruals	**-**	14,686
	-	-
	2,344	74,681

*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 20.

Notes to the financial statements *(continued)*

12 Trade and other payables *(continued)*

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility.

13 Called up Share capital

	2023	2022
	£	£
Allotted and fully paid		
1 (2022: 1) ordinary shares of £1 each	1	1

14 Dividends

Dividends declared and paid were £nil (2022: £nil), this is equivalent to £nil per share (2022: £nil). There are no plans for a final dividend.

15 Contingent liabilities

At the year-end date the Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilization of £21m at 31 March 2023 (31 March 2022: £383.6m).

16 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available. In the year ended 31 March 2023, the Company had no transactions or balances outstanding with related parties that fall outside the FRS 101 exemption criteria.

Notes to the financial statements *(continued)*

17 Pension commitments

Pension costs for defined contribution schemes are as follows:

	2023	2022
	£'000	£'000
Defined contribution schemes	**3,377**	4,732

Statement of financial position assets and liabilities recognised are as follows

	2023	2022
	£'000	£'000
Retirement benefits – funds in surplus	**-**	7,500
Retirement benefits – funds in deficit	**(209)**	(146)
	(209)	7,354

The Company accounts for pension costs in accordance with IAS 19. The Company is a contributing employer to defined benefit scheme (the "Rosyth Royal Dockyard Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of these schemes. The allocation of the assets and liabilities of the schemes which have been recognised in these financial statements are detailed in this note.

In the year ended 31 March 2023 the Company transferred its contribution in the defined contribution scheme in the UK in respect of a number of its employees (the "Citrus Clyde Pension scheme") and its contribution in the defined benefit scheme (the "Babcock International Group Pension Scheme'') to Devonport Royal Dockyard Limited, detail of which is included in Note 19.

The nature of the defined benefit schemes are that the employees contribute to the schemes with the employer 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 independent, qualified actuaries.

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

The schemes are funded by payments to legally separate Trustee-administered funds. The Trustees of the schemes are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the Trustees are responsible for setting the schemes' investment strategy (subject to consultation).

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

The schemes have an independent Trustee and member nominated Trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2023 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 30 May 2023. The major assumptions used for the IAS 19 valuation were:

Major assumptions	2023 %	2022 %
Rate of increase in pensionable salaries	**3.0**	3.4
Rate of increase in pensions (past service)	**3.15**	3.5
Discount rate	**4.8**	2.7
Inflation rate (RPI) – year 1	**6.9**	3.3
Inflation rate (RPI) – thereafter	**3.3**	3.3
Inflation rate (CPI) – year 1	**4.7**	3.2
Inflation rate (CPI) - thereafter	**2.8**	3.2
Weighted average duration of cash flows (years)	**12**	14
Life expectancy from age 65 (male aged 65)	**21.3**	21.8
Life expectancy from age 65 (female aged 65)	**23.9**	21.8
Life expectancy from age 65 (male aged 45)	**21.8**	22.4
Life expectancy from age 65 (female aged 45)	**24.4**	22.4

The Group's cash contribution rates payable to the scheme in 2023/24 are expected to be as follows:

Future service contribution rate	**30.3%**
Future service cash contributions	**£3.2m**
Deficit contributions	**£13.7m**
Additional longevity swap payments	**£3.6m**
Expected employer cash costs for 2023/24	**£20.5m**
Expected salary sacrifice contributions	**£0.4m**
Expected total employer contributions	**£20.9m**

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

The changes to the Babcock International Group PLC balance sheet at March 2023 and the changes to the Babcock International Group PLC income statement for the year to March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £000	**Projected income statement 2024 £000**
Initial assumptions	959,486	3,258
Discount rate assumptions increased by 0.5%	907,786	(0,177)
Discount rate assumptions decreased by 0.5%	1,016,590	6,448
Inflation rate assumptions increased by 0.5%	989,614	4,955
Inflation rate assumptions decreased by 0.5%	930,318	1,627
Total life expectancy increased by half a year	979,147	4,239
Total life expectancy decreased by half a year	941,281	2,351
Salary increase assumptions increased by 0.5%	961,981	3,491
Salary increase assumptions decreased by 0.5%	957,087	3,036

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 2023 were:

Fair value of plan of assets	**2023**	2022
	£'000	£'000
Equities	**569**	7,701
Property	**101,475**	121,945
High yield bonds/emerging market debt	**5**	19,785
Absolute return and multi strategy funds	**-**	-
Bonds	**450,971**	662,075
Matching assets	**525,991**	652,608
Collateral	**-**	58,918
Active position on longevity swaps	**(51,400)**	(65,800)
Total assets	**1,027,611**	1,457,232
Present market value of liabilities - funded	**(959,486)**	(1,283,066)
Gross pension surplus	**68,125**	174,166

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

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

The longevity swaps have been valued, in 2023, in line with assumptions that are consistent with the requirements of IFRS 13.

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group PLC	2023 £000	2022 £000
Current service cost	**5,172**	5,873
Incurred expenses	**2,499**	2,506
Past service cost	**-**	-
Total included within operating profit	**7,671**	8,379
Net interest Cost	**(4,774)**	(537)
Total charged to the income statement	**2,897**	7,842

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 £242k for service cost (2022: £253k), £116k for incurred expenses (2022: £108k), and net interest credit of £223k (2022: £23k).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	2023 £000	2022 £000
Actual return less interest on pension scheme assets	**314,802**	17,706
Experience losses arising on scheme liabilities	**(18,000)**	(16,961)
Changes in assumptions on scheme liabilities	**(429,099)**	102,022
Other gains	**16,176**	2,601
	(116,121)	105,368

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £4,690k (2022:£4,601k, loss*Restated).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group PLC	2023 £000	2022 £000
At 1 April	**1,523,032**	1,492,970
Interest cost	**40,389**	29,358
Employee contributions	**71**	71
Employer contributions	**12,977**	58,808
Benefits paid	**(68,359)**	(75,881)
Actuarial (loss) / gain	**(429,099)**	17,706
At 31 March	**1,079,011**	1,523,032
Total Fair value of reimbursement rights	**(51,400)**	(65,800)

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	**2023 £000**	2022 £000
At 1 April	**1,283,066**	1,408,078
Service cost	**5,172**	5,873
Incurred expenses	**2,499**	2,506
Interest on liabilities	**33,839**	27,480
Employee contributions	**71**	71
Actuarial gain – demographics	**(8,864)**	(22,776)
Actuarial gain – financial	**(305,938)**	(79,246)
Experience gains	**18,000**	16,961
Benefits paid	**(68,359)**	(75,881)
Past service cost	**-**	-
At 31 March	**959,486**	1,283,066

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 £nil (2022: £7,500k).

Rosyth Pension scheme

The IAS 19 valuation has been updated at 31 March 2023 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 2021. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2023 %**	**2022 %**
Rate of increase in salaries	-	3.4
Rate of increase in pension payment	3.3	3.7
Discount rate	4.8	2.7
RPI Inflation (year 1)	6.9	3.7
RPI Inflation (thereafter)	3.3	3.7
CPI Inflation (year 1)	4.7	3.2
CPI Inflation (thereafter)	2.8	3.2
Total life expectancy for current male pensioners aged 65 (years)	19.4	20.0
Total life expectancy for future male pensioners currently aged 45 (years)	20.6	20.9
Total life expectancy for current female pensioners aged 65 (years)	21.8	-
Total life expectancy for future female pensioners currently aged 45 (years)	23.1	-

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

The Company's cash contribution rates payable to the schemes are expected to be as follows

	Rosyth Royal Dockyard Pension scheme £m
Deficit contributions	12.4
Additional longevity swap payments	4.3
Expected total employer contributions	16.7

The changes to the Babcock International Group PLC balance sheet at March 2023 and the changes to the Babcock International Group PLC income statement for the year to March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £000	**Projected income statement 2024 £000**
Initial assumptions	655,315	4,630
Discount rate assumptions increased by 0.5%	616,626	2,891
Discount rate assumptions decreased by 0.5%	698,266	6,163
Inflation rate assumptions increased by 0.5%	684,835	6,047
Inflation rate assumptions decreased by 0.5%	627,181	3,279
Total life expectancy increased by half a year	665,464	5,117
Total life expectancy decreased by half a year	641,963	3,989
Salary increase assumptions increased by 0.5%	655,315	4,630
Salary increase assumptions decreased by 0.5%	655,315	4,630

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 2023 were:

Fair value of plan of assets	**2023 £'000**	2022 £'000
Growth assets		
Equities	**(396)**	10,186
Property funds	**51,182**	63,022
High yield bonds/emerging market debt	**-**	24,300
Absolute return and multi-strategy funds	**4,530**	44,489
Low-risk assets		
Bonds	**193,857**	398,240
Matching assets	**407,832**	324,402
Collateral	**-**	75,327
Longevity swaps	**(78,700)**	(91,700)
Fair value of assets	**578,305**	848,266
Present value of defined benefit obligations	**(655,315)**	(898,505)

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

Fair value of plan of assets (*continued)*

Total defined benefit obligations	**(655,315)**	**(898,505)**
Net liabilities recognised in the statement of financial position	**(77,010)**	**(50,239)**

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

The longevity swaps have been valued, in 2023, 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	**2023 £000**	2022 £000
Current service cost	**-**	-
Incurred expenses	**1,491**	1,544
Net interest (income) / cost	**(509)**	2,659
Past service cost	**-**	-
Curtailment	**-**	-
Total charged to the income statement	**982**	4,203

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 £nil for service cost (2022: nil), incurred expenses of £4k (2022: £4k) and net interest credit of £1k (2022: cost £7k).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	**2023 £000**	2022 £000
Actuarial gain recognised in the SOCI	**255,444**	71,986
Experience losses	**(53,045)**	(10,967)
(loss) / Gain on assets	**(351,759)**	34,214
Other gains / (losses)	**15,476**	(13,894)
	(133,884)	81,339

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £70k (2022: £425k gain).

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group PLC	**2023 £000**	2022 £000
At 1 April	**939,966**	877,967
Interest on assets	**26,380**	18,279
Employer contributions	**108,095**	75,466
Employee contributions	**-**	-
Benefits paid	**(65,677)**	(65,960)
Actuarial (loss)/gain	**(351,759)**	34,214
At 31 March	**657,005**	939,966

Reconciliation of present value of scheme liabilities	**2023 £000**	2022 £000
At 1 April	**898,505**	1,004,528
Service cost	**-**	-
Incurred expenses	**1,491**	1,544
Interest on liabilities	**23,395**	19,412
Employee contributions	**-**	-
Actuarial (gain) – demographics	**(14,204)**	(22,630)
Actuarial (gain)– financial	**(241,240)**	(49,356)
Experience losses	**53,045**	10,967
Benefits paid	**(65,677)**	(65,960)
Past service cost	**-**	-
Curtailment	**-**	-
At 31 March	**655,315**	898,505

The deficit recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £209k (2022: £136k).

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

Clyde Citrus pension scheme

The IAS 19 valuation has been updated at 31 March 2023 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. . Babcock Marine Clyde Limited was only participating company in Clyde Citrus pension scheme, the scheme is now a part of Devonport Royal Dockyard Limited as a result of sale of Trade and Assets since 31st March 2023. Hence comparatives from current financial year have been excluded from below disclosures.

The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2023**	2022
	%	%
Rate of increase in pensionable salaries	**3.0**	3.3
Rate of increase in pensions (past service)	**2.3**	2.4
Discount rate	**4.8**	2.7
Inflation rate (RPI) – year 1	**6.9**	3.6
Inflation rate (RPI) – thereafter	**3.3**	3.6
Inflation rate (CPI) – year 1	**4.7**	3.2
Inflation rate (CPI) - thereafter	**2.8**	3.2
Weighted average duration of cash flows (years)	**13**	17
Total life expectancy for current pensioners currently aged 65 (years)	**-**	84.5
Total life expectancy for future pensioners currently aged 45 (years)	**-**	85.5
Life expectancy from age 65 (male aged 65)	**19.1**	-
Life expectancy from age 65 (female aged 65)	**22.4**	-
Life expectancy from age 65 (male aged 45)	**20.1**	-
Life expectancy from age 65 (female aged 45)	**23.7**	-

The Group's cash contribution rates payable to the scheme in 2023/24 are expected to be as follows:

Future service contribution rate	2.15**%**
Future service cash contributions	£1.1m
Deficit contributions	nil
Expected employer cash costs for 2023/24	£1.1m
Expected salary sacrifice contributions	0.5
Expected total employer contributions	£1.6m

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

The changes to the balance sheet at March 2023 and the changes to the income statement for the year to March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2023 £000	**Projected income statement 2024 £000**
Initial assumptions	1,754	733
Discount rate assumptions increased by 0.5%	1,550	641
Discount rate assumptions decreased by 0.5%	1,991	843
Inflation rate assumptions increased by 0.5%	1,870	784
Inflation rate assumptions decreased by 0.5%	1,646	686
Total life expectancy increased by half a year	1,780	744
Total life expectancy decreased by half a year	1,728	722
Salary increase assumptions increased by 0.5%	1,776	743
Salary increase assumptions decreased by 0.5%	1,733	723

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 2023 were:

Fair value of plan assets	2023	2022
	£'000	£'000
Equities	**112**	135
Property	**240**	134
Absolute return and multi strategy funds	**398**	393
Bonds	**1,683**	336
Matching assets	**53**	723
Total assets	**2,486**	1,721
Present market value of liabilities - funded	**(1,754)**	(1,711)
Gross pension (deficit)	**732**	(10)

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 2023, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement	**2023 £000**	2022 £000
Current service cost	**1,226**	1,690
Incurred expenses	**76**	112
Net interest (credit) /cost	**(2)**	10
Total included within operating profit	**1,300**	1,812
Total charged to the income statement	**1,300**	1,812

Notes to the financial statements *(continued)*

17 Pension commitments *(continued)*

Analysis of movement in the financial statement:

	2023 **£000**	2022 £000
Actuarial gain recognised in the SOCI	**1,328**	**598**
Experience (loss)/gain on liabilities	**(127)**	**56**
Loss on assets	**(560)**	**(122)**
	641	**532**

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets	**2023** **£000**	2022 £000
At 1 April	**1,721**	452
Interest on assets	**64**	22
Employer contributions	**1,381**	1,425
Benefits paid	**(120)**	(56)
Actuarial losses	**(560)**	(122)
At 31 March	**2,486**	1,721

Reconciliation of present value of scheme liabilities	**2023** **£000**	2022 £000
At 1 April	**1,711**	587
Service cost	**1,226**	1,690
Incurred expenses	**76**	112
Interest on liabilities	**62**	32
Actuarial (gain) – demographics	**(21)**	(428)
Actuarial (gain) – financial	**(1,307)**	(170)
Experience losses /(gains)	**127**	(56)
Benefits paid	**(120)**	(56)
At 31 March	**1,754**	1,711

The surplus recognised in these financial statements was £nil (2022: £10k loss).

Notes to the financial statements *(continued)*

18 Subsidiary, and associates and joint venture undertakings

All related undertakings for the Company are as listed below:

Company Name	**Country**	**Interest %**
BNS Pensions Limited	United Kingdom	100% Ordinary shares

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

19. Transfer of Trade and Assets to Group Subsidiary

On 31 March 2023, the Company transferred its trade and assets to fellow group subsidiary, Devonport Royal Dockyard Limited. The Transfer of Trade and Assets is summarised below.

The Book Value of assets and liabilities recognised as a result of the Transfer were as follows.

<table>
<tr><th colspan="3" rowspan="2">Description</th><th>Transferred To Devonport Royal Dockyard Limited</th></tr>
<tr><th>Amount £'000</th></tr>
<tr><td rowspan="3">Non-current assets</td><td>Amounts due after more than one year</td><td>Amounts due from group undertakings</td><td>87,784</td></tr>
<tr><td>Other</td><td>Retirement benefit surplus</td><td>3,909</td></tr>
<tr><td></td><td>Total</td><td>91,693</td></tr>
<tr><td rowspan="6">Current assets</td><td rowspan="5">Amounts falling due within one year</td><td>Trade receivables</td><td>3,845</td></tr>
<tr><td>Contract assets</td><td>225</td></tr>
<tr><td>Amounts due from group undertakings</td><td>8,715</td></tr>
<tr><td>Other receivables</td><td>344</td></tr>
<tr><td>Prepayments and accrued income</td><td>462</td></tr>
<tr><td></td><td>Total</td><td>13,591</td></tr>
<tr><td rowspan="6">Current liabilities</td><td rowspan="6">Amounts falling due within one year</td><td>Trade creditors</td><td>5,651</td></tr>
<tr><td>Amounts owed to group undertakings</td><td>31,339</td></tr>
<tr><td>Contract Balances</td><td>16,268</td></tr>
<tr><td>Other payables</td><td>3,266</td></tr>
<tr><td>Accruals</td><td>14,733</td></tr>
<tr><td>Total</td><td>71,257</td></tr>
<tr><td>Non-current liabilities</td><td>Amounts falling due within one year</td><td>Amounts owed to group undertakings (Consideration)</td><td>34,027</td></tr>
</table>

Notes to the financial statements *(continued)*

19. Transfer of Trade and Assets to Group Subsidiary *(continued)*

The consideration amount of £34,027K is receivable by the Company from Devonport Royal Dockyard Limited as a result of the acquisition. The above amount is outstanding at the date of transfer and has been accounted for as an inter-company loan, which is interest free, unsecured and receivable on demand.

20 Prior year restatement

In the year ended 31 March 2023, the Company restated the prior year financial information. The restatements are summarised below:

Extract of Statement of comprehensive Income for year ended 31 March 2023

	Reported	BIL Pension Liability	Restated
	£'000	£'000	£'000
Profit for the financial year	6,409		6,409
Other comprehensive income/(expense):			
Items that will not be subsequently reclassified to income statement:			
Gain/(loss) on re-measurement of net defined benefit obligation	6,557	(999)	5,558
Tax (expense)/benefit on net defined benefit obligation	(1,686)	-	(1,686)
Total comprehensive income for the year	**11,280**	**(999)**	**10,281**

BIL pension liability

Babcock International Limited, a fellow subsidiary, makes payments on behalf of member entities in relation to the Babcock International Group defined benefit pension scheme and recharges those payments to member entities. Babcock International Limited has disclosed intercompany assets equivalent to the amounts to be recharged to member entities. The Company has not recorded an equivalent liability, as such the Company has restated the prior year financial statements to increase the intercompany liability for the year ending 31 March 2022 by £999k and for the year ending 31 March 2021 by £857k in relation to amounts owed to Babcock International Limited. The cumulative impact at 31 March 2022 on the balance sheet is £1.8m.

Notes to the financial statements *(continued)*

20 Prior year restatement *(continued)*

Extract of Statement of Financial Position for year ended 31 March 2022

	Reported	BIL Pension Liability	Restated
	£000	£000	£000
Current liabilities			
Trade and other payables	(72,824)	(1,856)	(74,681)
Net current liabilities	**(44,806)**	**(1,856)**	**(46,663)**
Net assets	**24,910**	**(1,856)**	**23,054**
Retained earnings	24,910	(1,856)	23,054
Total shareholders' funds	**24,910**	**(1,856)**	**23,054**

Extract of Statement of Financial Position for year ended 31 March 2021

	Reported	BIL Pension Liability	Restated
	£000	£000	£000
Current liabilities			
Trade and other payables	(69,165)	(858)	(70,023)
Net current liabilities	**(32,316)**	**(858)**	**(33,174)**
Net assets	**13,630**	**(858)**	**12,772**
Retained earnings	13,630	(858)	12,772
Total shareholders' funds	**13,630**	**(858)**	**12,772**

Notes to the financial statements *(continued)*

20 Prior year restatement *(continued)*

* Both tables above include only those financial statement line items which have been restated. The total noncurrent assets, total assets less current liabilities, and equity do not therefore represent the sum of the line items presented above.

BIL pension liability

As outlined in note 17, Babcock Marine Clyde Limited was a contributing employer (until March 31, 2023) to the “Babcock International Group Pension Scheme”, a defined benefit scheme operated centrally by Babcock International Group PLC. Babcock International Limited, a fellow subsidiary, makes payments on behalf of member entities in relation to the Babcock International Group defined benefit pension scheme and recharges those payments to member entities. Babcock International Limited has disclosed intercompany assets equivalent to the amounts to be recharged to member entities. The Company has not recorded an equivalent liability, as such the Company has restated the prior year financial statements to record an intercompany liability at 31 March 2021 of £858k and 31 March 2022 of £1.8m in relation to amounts owed to Babcock International Limited.

As a participating employer of the scheme, Babcock Marine Clyde Limited was severally liable, along with the other participating employers, for the assets and liabilities of the scheme, and as such, these assets, liabilities and obligations are allocated to each participating entity based on active members. Employee contributions, on the other hand, are allocated on the basis of actual contributions paid, with the net gain or loss on remeasurement of the defined benefit obligation reflected in other comprehensive income. Any change in employer contributions therefore directly impacts on other comprehensive income, hence why the recognition of the intercompany liability at 31 March 2021 and 31 March 2022 has also impacted the Statement of Other Comprehensive Income.

21 Post balance sheet events

There have been no significant events affecting the Company since the year end.

22 Ultimate parent undertaking

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

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

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