Devonport Royal Dockyard Limited

Annual report and financial statements

For the year ended 31 March 2024

Company registration number:

02077752

COMPANY INFORMATION

Current Directors
S C Bowen
R Foran
J R Gane
H A B Holt
D J Kieran
M D Lawton
R Carrick

Registered Number
02077752

Registered Office
Devonport Royal Dockyard
Devonport
Plymouth
PL1 4SG

Independent Auditors
Deloitte LLP
1 New Street Square
London
EC4A 3HQ

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Strategic report for the year ended 31 March 2024

The directors present their strategic report on the Company for the year ended 31 March 2024.

Principal activities

The Company's principal activity is the maintenance and refit of Royal Navy warships and submarines, the provision of engineering services to the Ministry of Defence ("MOD") in relation to the operation of Devonport Royal Dockyard and HM Naval Base Clyde, and the provision of a range of other technical and engineering services primarily to the MOD. The classes of business in which the Company operates are considered similar and are of an inter-related nature.

Business review

	2024	2023
	£000	£000
Revenue	**1,522,764**	1,124,317
Profit for the financial year	**49,570**	61,582

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 which continues to operate successfully. ToBA was revised in 2021 for updates in relation to the Future Maritime Support Programme ("FMSP"). A Long-Term Partnering Agreement ("LTPA") is currently under discussion with the MOD to replace ToBA for the next thirty years beyond 2025. Discussions are progressing well, and the MOD have indicated a direct award strategy removing the invitation to negotiate (ITN) process, with commercial heads of terms being drawn up by December 2024.

The operations and contracts of HMNB Clyde were delivered by the Company during 2024 following the acquisition of the trade and assets of Babcock Marine (Clyde) Limited on 31 March 2023, a fellow subsidiary within the Babcock group. In the year ended 31 March 2023, Babcock Marine (Clyde) Limited recognised revenue of £174.1m and profit for the financial year of £12.9m. These balances are not included in the prior year comparative balances in the table above.

Net assets held at the balance sheet date has seen a reduction from £369.2m at 31 March 2023 to £357.2m for the current year. This has been largely driven by the retirement benefit deficit relating to the DRDL defined benefit pension scheme of £127.5m. The Company accounts for pension costs in accordance with IAS 19, and full details are provided within Note 24. The decrease in net assets has also been affected by an increase to provisions in year of £11.2m attributable to the growth in costs associated with loss making contracts, and inventory saw a decrease in year of £10.5m. Partially offsetting these is an increase in capital expenditure during the year amounting to £55.2m reflecting the Company's continued commitment to investing in its infrastructure.

During the year the Company continued to operate under the FMSP contract and participate in a wide range of initiatives that are intended to deliver key elements of the MOD's maritime support and change programme, delivering improvements in both cost effectiveness and submarine availability across the joint industrial-MOD enterprise, whilst ensuring that important naval design, build, and support capabilities are retained.

Business review *(continued)*

The provision of fleet time maintenance to the nuclear-powered submarine flotilla based at Devonport and Clyde continued during the year for the Trident and Astute class submarines with the undertaking of base maintenance periods (BMP's). During the year Babcock was awarded the initial contract for the Deep Maintenance Period (DMP) associated with the Vanguard class submarine, HMS Victorious, following the conclusion of the DMP and life extension on HMS Vanguard during Spring 2023. The commercial framework for the new DMP was on a full cost recovery basis. The DMP has started afloat prior to a move into its dock which has subsequently been recommissioned in Q3 2024.

The first Astute class submarine has been received into Devonport and has been undertaking BMP work ahead of docking.

The Company progressed design and construction work relating to the strategic infrastructure upgrades required to support the future deep maintenance and dismantling of new, existing and old Naval platforms. This work continues to increase through detailed design and construction as the site is recapitalised to support the boat programme.

The Company is also providing engineering support to the future submarine programme for Dreadnought Class and the Astute Class replacement.

The Company also continues to provide fleet time support to the surface ship flotilla based at Devonport and to support a continuous programme of warship upkeep and upgrade projects for the T23 frigates, which continued under the FMSP contract. All have accommodated significant scope growth due to ageing and upgrade requirements. The company continues to support fleet operations on an international basis.

Throughout the year the Company progressed a number of equipment-related 'through life' engineering support contracts with the MOD, using its established facilities and the engineering skill base of its employees. The Company also continued to manage the provision of submarine configuration management, in-service performance and other support services to the MOD across the entire UK nuclear-powered submarine fleet.

Maintaining a strong Health and Safety and environmental record remains a fundamental objective across the Devonport and Clyde sites. Improved safety culture, reporting of incidents, near misses, and reinforcement of baseline site safety standards and behavioural expectations. Zero harm and zero waste to land fill are key objectives.

During the year the company entered into negotiation with trade unions for the closure of the Devonport defined benefit pension scheme (DRDPS) to future accrual which was concluded in Q1 2024 with an implementation date in Q4 2024. Additionally, the company entered into consultation with the trade unions for the transfer of the Babcock defined contribution pension scheme to the Babcock international group master trust.

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at 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 2024, which does not form part of this report.

Strategic report for the year ended 31 March 2024 *(continued)*

Principal risks and uncertainties *(continued)*

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

The key risks and uncertainties affecting the Company, in line with previous years, are considered to relate to contractual performance, timely agreement of the infrastructure needs to support MOD programmes, the political and regulatory environment, and exposure to the defined benefit pension scheme. The Executive team of the Company meets with MOD at numerous forums throughout the year to address the risks identified in order to ensure contractual performance and infrastructure needs are planned and executed to support the enterprise.

The directors manage this risk by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and nuclear licensed site obligations. Further discussion of these risks and uncertainties, in the context of the Group as a whole, are provided on pages 89 to 106 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The growth and performance of Marine and Nuclear, two of the sectors of Babcock International Group PLC, of which parts of both sectors are included in this Company, are discussed on pages 44 to 51 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

	2024	2023 Restated*	
Revenue Growth	**35.4%**	22.4%	Driven by increased activity in relation to Infrastructure contracts, predominantly 9 Dock,10 Dock and 15 Dock construction work to support V Class and A Class submarines. There has also been increased submarine maintenance activity during the financial year.
Operating Return on Revenue (ORR)	**5.1%**	6.7%	Increased Research & Development expenditure and IP Royalty charges, partially offset by growth in engineering services, infrastructure contracts and submarine maintenance.

Strategic report for the year ended 31 March 2024 *(continued)*

Key performance indicators *(continued)*

	2024	2023 Restated*	
Order Book	**£3,487m**	£3,014m	Includes total value of signed contracts and prudent estimate of value of framework contracts, based on ongoing assessment of expected contract values. Year on year increase driven by award of HMS Victorious DMP and 10 Dock construction.
Total injuries rate per 100,000 hours worked	**2.61**	3.42	Health and Safety is a core value for the Company. The data includes all reported injuries. The reduction in total injuries in FY24 is a reflection of the improved safety culture that has been rolled out across Devonport.

* Restated to include Babcock Marine (Clyde) Ltd performance for the year ended 31 March 2023, following acquisition of trade & assets by Devonport Royal Dockyard Ltd on 31 March 2023.

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 the Company to have acted in a way that 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 between members of the Company

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 60, 61 and 119 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 Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made 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. Stakeholder engagement in relation to key stakeholder groups includes the following:

S172(1) statement and stakeholder engagement *(continued)*

Customers

Why they matter to us:
The future success of the Company is driven the long-term relationships with our customers. The Directors 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 their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.
What matters to them:

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How the Company engages:

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership programme
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Investors

Why they matter to us:
The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active Investor Relations and Treasury team.

What matters to them:

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communication
- Governance and management
- Sustainability strategy

S172(1) statement and stakeholder engagement *(continued)*

Investors *(continued)*

How the Company engages:
- Annual Report and Financial Statements
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Dedicated investor section on Babcock website
- Chair engagement with top shareholders
- Consultation with large shareholders on remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

Suppliers

Why they matter to us:
The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors 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 Company's implementation of the Group-wide Procurement Strategy as described on pages 16 to 17 and 86 to 87 of the annual report of Babcock International group PLC, which does not form art of this report.

What matters to them:
- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How the Company engages:
- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learn' sessions
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

Regulators

Why they matter to us:
We manage complex assets in highly regulated sectors: nuclear and defence. We are committed to providing safe and effective operations. We must maintain positive and constructive relationships with regulators to be able to operate, to help shape policy in our markets and to position for future opportunities.

Strategic report for the year ended 31 March 2024 *(continued)*

S172(1) statement and stakeholder engagement *(continued)*

Regulators *(continued)*

What matters to them:

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

How the Company engages:

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

Employees

Why they matter to us:
Employee engagement is a primary focus for the Directors of the Company. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Company's implementation of the Group-wide People Strategy as described on pages 12 to17 and 80 to 84 of the annual report of Babcock International group PLC, which does not form part of this report.

What matters to them:

- Remuneration and reward
- Professional development
- The Company’s aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

S172(1) statement and stakeholder engagement *(continued)*

Employees *(continued)*

How the Company engages
- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and board visits
- Free confidential employee support helpline

Communities

Why they matter to us:
We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy.

To support our community, the Company engage with a number of external organisations to drive our social value agenda, supporting outreach programmes, STEM, volunteering initiatives, charitable donations/sponsorship, and social mobility programmes. We engage with and hold seats on the social mobility commission, local chambers of commerce, STEM community partnerships and sponsor the Armed Forces Day, and a number of city events throughout the year. We engage proactively with our employees, rail, and bus companies in our travel to work plan to encourage sustainable and safe travel. We have worked extensively with Plymouth City Council to enable the successful designation of Plymouth Freeport as part of the drive for levelling up. Our employees are active in the community through volunteering across a range of initiatives.

What matters to them:
- Employment and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for armed forces community
- Community engagement

S172(1) statement and stakeholder engagement *(continued)*

Communities *(continued)*

How the Company engages:

- Sponsorship and donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Employer of service leavers, veterans and reserves
- Engagement with local community programmes
- Engagement with local rail and bus companies to plan sustainable and safe travel to work
- Collaboration with Plymouth City Council, enabling designation of Plymouth as a freeport

Sustainability 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 62 to 88 of the annual report of Babcock International Group PLC, which does not form part of this report.

Working with the MOD in relation to the Devonport site, the Company has established a short, medium and long term Establishment Management Plan (EMP) for the Naval Base. The EMP considers future risks and site investment needed to address key climate related issues, with focus on sea levels and the electrical distribution network, including solar. Furthermore, immediate action has already been taken to reduce the site's carbon footprint, such as a move to Hydrotreated Vegetable Oil (HVO) fuel rather than conventional diesel.

Strategic report for the year ended 31 March 2024 *(continued)*

This report was approved by the board on 17 December 2024 and signed on its behalf by

J Gane
Director
17 December 2024

Directors' report for the year ended 31 March 2024

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2024.

Dividends

An interim dividend of £nil (2023: £nil) representing nil pence (2023: nil pence) per ordinary share was declared and paid in the year. No final dividend for the year ended 31 March 2024 is proposed by the directors (2023: £nil).

Directors

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

S C Bowen	
R Foran	
J R Gane	
D J Kieran	
H A B Holt	(Appointed 14 February 2024)
M D Lawton	(Appointed 24 July 2024)
R Carrick	(Appointed 01 November 2024)
N M Fox	(Appointed 28 April 2023, Resigned 20 October 2023)
K M Douglas	(Appointed 14 February 2024, Resigned 30 September 2024)
A Spurr	(Resigned 31 December 2023)
P Watson	(Resigned 24 July 2024)
A D H Mathews	(Resigned 30 September 2024)
G Simpson	(Resigned 12 November 2024)

P Fel resigned as Company Secretary on 14 November 2024. The Company is in the process of appointing a replacement.

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

Under the FMSP contract, the Company will continue to focus on developing and implementing efficiency improvements across the site to deliver the committed savings in addition to ensuring contractual performance obligations are met or exceeded.

The Company continues its active engagement in a number of pan-industry alliances with the MOD that will determine long term arrangements for delivering and supporting current and future classes of surface warships and submarines, including design and assessment work on the planned successor deterrent and attack submarines, new classes of surface warship, and modernisation of infrastructure to support future submarine and warship programmes. This includes supporting the international submarine opportunity, SSN-AUKUS, to establish a sovereign nuclear powered submarine capability for the Australian Ministry of Defence.

We remain confident that the Company will continue to benefit from the strength of the relationship with the MOD. In particular, the Company is engaged in ongoing discussions with the MOD in respect of a long term partnering agreement that will replace the FMSP contract. The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position, are set out within the Strategic Report. In addition, within the Strategic Report, there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £588.1m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective other group companies confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Corporate governance statement

As a subsidiary of Babcock International Group PLC, the Company adheres to the broader governance of the Group and its policies. Babcock International Group PLC is listed on the London Stock Exchange and therefore complies with the UK Corporate Governance code. Directors of the Company apply the principles of the code in order to promote the purpose, values and future success of the Company.

Purpose and Principles

Our Purpose is to create a safe and secure world, together. This is why we exist as a business, and why we do what we do. It defines and underpins our new ways of working, how we create value for our shareholders and how we improve delivery for our customers. It informs the decisions we make and how we treat each other.

Our Purpose and Principles were formally launched last year to support the major cultural shift the business is making. They were developed with the help of our people and are designed to unite us as a Company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock. See more about our approach to Inclusion and Diversity on page 81 to 85 of the annual report for Babcock International Group PLC, which does not form part of this report.

Board and Directors' responsibilities

The Directors' responsibilities statement is included on page 18.

Board membership and effectiveness

As required by the UK Corporate Governance Code, every year we conduct our Board evaluation which we view as an excellent opportunity to consider whether there are ways we can improve our effectiveness.

Directors' report for the year ended 31 March 2024 *(continued)*

Corporate governance statement *(continued)*

Board membership and effectiveness (continued)

The Board ensures that members have an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively.

Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board's role is to lead the Company for the long-term sustainable success of Babcock by setting our strategy and supervising the conduct of the Company's activities within a framework of prudent and effective internal controls.

Risk

We have a risk management framework and internal control environment to manage the risks that may undermine our ability to execute our strategy or more generally our business model. As part of the Group-wide turnaround plan, we have reviewed and improved the risk management framework so that it aligns with our new operating model. As a result, the framework is now standardised across the Group, and consistent, with clear risk ownership. In order to assist the Board and the Directors in their understanding of principal risks, we have increased the granularity and quantification of each risk. In 2022 we launched an updated Risk Management policy, which has enhanced the guidance and requirements around our risk assessment and reporting process.

Processes will be subject to ongoing continuous improvement. These activities form part of the Risk Management Strategy as described on pages 89 to 95 of the annual report of Babcock International Group PLC, which does not form part of this report.

Remuneration

The Babcock International Group PLC Remuneration Committee is responsible for reviewing the remuneration of employees of the Company, as well as alignment of incentives and rewards, and take these into account when setting the policy for executive remuneration. These activities form part of the Remuneration Strategy as described on pages 136 to 137 of the annual report of Babcock International Group PLC, which does not form part of this report.

Business relationships

The Company's approach to business relationships is detailed in the S172 statement on pages 6 to 11.

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 of 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.

Directors’ report for the year ended 31 March 2024 *(continued)*

Employment of disabled persons (*continued)*

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 12 to 17 and 81 to 84 of the annual report of Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered within the Strategic Report, on pages 9 and 10.

Safety policy

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

Research and development

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

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 2024 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic Report on pages 6 to 11.

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 applicable. 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.

Directors' report for the year ended 31 March 2024 *(continued)*

Political Donations

The Company has made £nil (2023: £nil) contributions to political parties during the year.

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 independent 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 s418 of the Companies Act 2006.

Appointment of auditors

Deloitte LLP are not seeking reappointment as auditors of the Company. A resolution appointing Forvis Mazars LLP as their replacement for Babcock International Group PLC and its subsidiaries has been proposed and approved by the Audit Committee, and approved at the 2024 AGM.

This report was approved by the board on 17 December 2024 and signed on its behalf by

J Gane
Director
17 December 2024

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and 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 members of Devonport Royal Dockyard Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Devonport Royal Dockyard Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 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 27.

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.

CONCLUSIONS RELATING TO GOING CONCERN

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

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- assessing the willingness and ability to Babcock International Group Plc to provide financial support; and
- assessing the appropriateness of the disclosures relating to going concern in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's

Independent auditors' report to the members of Devonport Royal Dockyard Limited *(continued)*

ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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 statement of directors' responsibilities, 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.

AUDITOR'S 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 Devonport Royal Dockyard 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 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 tax, pension 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

- 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;
- Obtaining an understanding of the contract including relevant contractual clauses and terms and conditions;
- 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;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Performing a risk assessment to identify contracts where cost shifting could impact on the margin recorded and performing testing on contracts with characteristics of audit interest;
- Assessing management's IFRS 15 accounting papers and other technical papers setting out judgements taken;
- 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;
- Assessing delivery progress and challenging key areas of estimation in overall contract revenue and cost;

Independent auditors' report to the members of Devonport Royal Dockyard Limited *(continued)*

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract, the associated contingencies and where relevant exit liabilities;
- Substantively testing a sample of actual costs incurred to date to check whether these had been recorded appropriately;
- Recomputing the cumulative-catch-up adjustments recorded by management;
- Obtaining evidence and challenging management on the assumptions used to calculate future transformational savings;
- Assessing the underlying inflation assumptions against competitors, the wider market and inflation rates;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- 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;
- Enquiring with in-house and external legal counsel regarding contract related litigation and claims;
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position; and
- Assessing the appropriateness of disclosures in the financial statements.

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

Independent auditors' report to the members of Devonport Royal Dockyard Limited *(continued)*

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS *(CONTINUED)*

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 *(CONTINUED)*

- 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.

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
17 December 2024

Income statement for the year ended 31 March 2024

	Note	**2024**	2023
		£000	£000
Revenue	4	**1,522,764**	1,124,317
Cost of revenue		**(1,445,729)**	(1,048,692)
Gross profit		**77,035**	75,625
Operating profit	5	**77,035**	75,625
Share of joint venture results		**(1,060)**	(544)
Exchange loss		**-**	(55)
Finance income	6	**2,060**	3,201
Finance costs	6	**(5,215)**	(1,374)
Profit before taxation		**72,820**	76,853
Income tax expense	10	**(23,250)**	(15,271)
Profit for the financial year		**49,570**	61,582

The notes on pages 29 to 71 form part of these financial statements.

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2024

	Note	2024	2023
		£000	£000
Profit for the financial year		**49,570**	61,582
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges		**-**	191
-Items that will not be subsequently reclassified to income statement:			
Loss on measurement of net defined benefit obligation	24	**(82,140)**	(212,005)
Tax on net defined benefit obligation and other timing differences	10	**20,536**	51,104
Total comprehensive expense for the year		**(12,034)**	(99,128)

Statement of financial position as at 31 March 2024

	Note	**2024** **£000**	2023 £000
Non-current assets			
Intangible assets	11	**40,788**	24,784
Property, plant and equipment	12	**236,918**	197,713
Right-of-use assets	13	**24,005**	23,627
Investments	14	**393**	1,454
Other receivables due after one year	16	**786,255**	800,875
Deferred tax assets	10	**3,261**	5,975
Retirement benefit surplus	24	**8,103**	3,909
		1,099,723	1,058,337
Current assets			
Inventories	15	**5,914**	16,425
Trade and other receivables	16	**178,197**	171,921
Other financial assets	19	**45**	537
Cash and cash equivalents		**288**	175
		184,444	189,058
Current liabilities			
Trade and other payables	17	**(759,076)**	(772,379)
Lease liabilities	13	**(2,993)**	(2,763)
Other financial liabilities	19	**-**	(17)
Provisions	18	**(10,483)**	(422)
		(772,552)	(775,581)
Net current liabilities		**(588,108)**	(586,523)
Total assets less current liabilities		**511,615**	471,814
Non-current liabilities			
Trade and other payables	17	**(182)**	(304)
Lease liabilities	13	**(23,948)**	(23,806)
Provisions	18	**(2,800)**	(1,614)
Retirement benefit deficit	24	**(127,532)**	(76,903)
		(154,462)	(102,627)
Net assets		**357,153**	369,187
Equity			
Called up share capital	20	**5,350**	5,350
Share premium account		**32,700**	32,700
Retained earnings		**319,103**	331,137
Total shareholders' funds		**357,153**	369,187

Statement of financial position as at 31 March 2024 *(continued)*

The notes on pages 29 to 71 are an integral part of these financial statements.

The financial statements on pages 24 to 71 were approved and authorised for issue by the board of directors on 17 December 2024 and signed on its behalf by:

J Gane
Director
17 December 2024

Statement of changes in equity as at 31 March 2024

	Note	Called up share capital £000	Share premium £000	Hedging reserve £000	Retained earnings £000	Total Shareholders' funds £000
Balance at 1 April 2022		5,350	32,700	(191)	430,456	468,315
Profit for the financial year		-	-	-	61,582	61,582
Other comprehensive income/(expense)		-	-	191	(160,901)	(160,710)
Total comprehensive income/(expense)		-	-	191	(99,319)	(99,128)
Balance at 31 March 2023		5,350	32,700	-	331,137	369,187
Profit for the financial year		-	-	-	49,570	49,570
Other comprehensive expense		-	-	-	(61,604)	(61,604)
Total comprehensive expense		-	-	-	(12,034)	(12,034)
Balance at 31 March 2024		5,350	32,700	-	319,103	357,153

Notes to the financial statements

1 General information

Devonport Royal Dockyard Limited is a private company limited by shares, which is incorporated and domiciled in England, UK. The address of the registered Office is Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG.

Its ultimate controlling party is disclosed in note 27. 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 Summary of Material Account Policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, ‘Reduced Disclosure Framework’ (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

The Company is a wholly owned subsidiary of Babcock Marine (Devonport) Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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

The Company 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). Where relevant, equivalent disclosures have been given in the group accounts of Babcock International Group PLC. 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 have been taken:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, ‘Share based payments’;
b) Paragraphs 91 to 99 of IFRS 13 ‘Fair value measurement’ (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities);
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) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

e) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

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

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.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

Adoption of new and revised standards

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the financial statements:

- IFRS 17, '*Insurance Contracts'*: IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IAS 1, *'Presentation of Financial Statements'*: The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies.
- Amendments to IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors'*: The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates.
- Amendments to IAS 12, '*Income Taxes'*: The amendments introduce a further exception from the initial recognition exemption.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position, are set out within the Strategic Report. In addition, within the Directors' Report, there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £588.1m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective other group companies confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual 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, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer 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 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 services provided by the Company results in some contracts only having one performance obligation.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(b) Determination and allocation of contract price to performance obligations

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 (d) 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/overspends 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 once the underlying uncertainty is resolved. 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. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that such variable consideration is not considered highly probable.

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.

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.

(c) Revenue and profit recognition

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

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 material accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition *(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 the Company'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 amount of revenue recognised by the Company (as measured by the methods described above) exceeds the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (g) 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 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.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

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

Assessment of contract profitability *(continued)*

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.

(d) 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 modifications as described 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.

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(d) Contract modifications *(continued)*

Accounting for contract modifications *(continued)*

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.

(e) Costs of obtaining a contract

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 and amortised on a straight-line basis. 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.

(f) Costs to fulfil a contract

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.

(g) 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.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Intangible assets

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

Computer software
Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

Property, plant and equipment

Property, plant and equipment (PPE) is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

Investments

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

Investments in Joint Ventures

Investment in Joint venture have been accounted using Equity Method

Leases

The Company as lessee

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognise a right of use asset and corresponding lease liability at commencement of the lease. The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Leases *(continued)*

The Company as lessee *(continued)*

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement. Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

The Company as lessor

As a lessor, the Company classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Company meet the criteria for a finance lease.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Company's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads. Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

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 25 for details of contingent liabilities.

Provisions

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly.

Notes to the financial statements *(continued)*

2 Summary of material 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 UK 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 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 material 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.

Trade and other payables

Trade and other payables are stated at actual cost, or estimated cost in respect of accruals.

Current intercompany trade payables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due to group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans payable at the balance sheet date that are settled within twelve months are recorded as current liabilities.

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

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 scheme's surpluses or deficits at the statement of financial position date.

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Employee benefits *(continued)*

a) Pension obligations *(continued)*

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

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

The Company also 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 Group operates equity-settled, share-based compensation plans of which the Company is a member. 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.

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.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Financial instruments *(continued)*

a) Financial assets and liabilities at amortised cost *(continued)*

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.

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Company balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

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.

3 Critical accounting estimates and judgements

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 amount of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates 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 financial statements are discussed below. Detail of the Company's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Acting as Principal or Agent

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

The key 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 are set out below:

Revenue and profit recognition

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete 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 judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. One key contract for the Company includes a critical estimate around the realisation of future transformational savings. If these savings fail to be realised, this will impact on the margin for this contract and could result in a reduction to revenue and contract assets and therefore, profit.

The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Company's contracts with customers:

- Stage of completion & costs to complete – The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete 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 judgements and estimates are reviewed regularly throughout the contract life based on latest available information with adjustments made where necessary. As contracts near completion, often less judgement is require to determine the expected outturn. The most significant estimate of contract outturn relates to the FMSP programme.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

- Variable consideration – the Company's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.

Defined benefit pension scheme

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 24.

Inflation

The level to which the Company's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Company's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Company endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

4 Revenue

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

	2024	2023
	£000	£000
By area of activity:		
Sales of goods – transferred at a point in time	**15,947**	18,384
Provision of services – transferred over time	**1,506,817**	1,105,933
	1,522,764	1,124,317

All revenue relates to sales in the United Kingdom.

Notes to the financial statements *(continued)*

5 Operating Profit

Operating profit is stated after charging/(crediting):	**2024 £000**	2023 £000
Depreciation of property, plant and equipment (note 12)	**24,915**	23,889
Amortisation of intangible assets (note 11)	**1,346**	917
Right of use depreciation (note 13)	**3,241**	2,286
Operating lease charges		
- Short term leases	**11**	11
Research and development	**17,942**	12,281
Foreign exchange gain	**(27)**	(456)
Audit fees payable to the Company's auditors	**787**	699
Intellectual property royalty charge	**22,757**	16,273

Fees paid to the company's auditors, Deloitte LLP and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

6 Finance income and costs

	2024 £000	2023 £000
Finance income:		
Bank interest	**2,060**	22
Retirement benefit interest (note 24)	**-**	3,179
	2,060	3,201
Finance costs:		
Bank interest	**(598)**	(192)
Fair value movement on derivatives	**(475)**	(573)
Lease interest	**(1,585)**	(609)
Retirement benefit interest (note 24)	**(2,557)**	-
	(5,215)	(1,374)

7 Staff costs

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

	2024 Number	2023 Number
By activity:		
Operations	**9,077**	7,201
Management and administration	**7**	7
	9,084	7,208

Notes to the financial statements *(continued)*

7 Staff costs *(continued)*

Their aggregate remuneration comprised:

	2024	2023
	£000	£000
Wages and salaries	**452,733**	336,342
Social security costs	**36,563**	35,089
Pension costs – defined contribution plans (note 24)	**20,916**	15,796
Pension costs – defined benefit plans (note 24)	**13,167**	18,742
Share based payments (note 9)	**2,085**	815
	525,464	406,784

During the year, the average number of employees recharged to other Babcock entities was 24 (2023: 11). The total cost recharged included in the above was £1,684,995 (2023: £926,053).

8 Directors' emoluments

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

	2024	2023
	£000	£000
Emoluments (including benefits in-kind)	**1,949**	1,524

During the year no (2023: no) directors remunerated by Devonport Royal Dockyard Limited exercised share options under long term incentive plans and no (2023: no) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to two directors (2023: two) under the Group pension scheme and the executive pension scheme, both of which are defined benefit schemes. The defined benefit schemes were amalgamated together on 1 January 2002, as reported in the pension financial statements for the year ended 31 March 2002.

No retirement benefits are accruing under the Group defined contribution scheme (2023: no retirement benefits were accruing under the Group defined contribution scheme). The total value of Company contributions paid to the scheme during the year in respect of directors' qualifying services was £nil (2023: £nil).

Eleven directors held office at some point during the year and up to date of signing the annual report. Except for seven (2023: six) 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.

Notes to the financial statements *(continued)*

8 Directors' emoluments *(continued)*

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

	2024	2023
	£000	£000
Emoluments (including benefits in-kind but excluding pension contributions)	**618**	433
Defined benefit pension scheme:		
- Accrued pension at the end of the year	**-**	-
- Accrued lump sum at the end of the year	**-**	-

The highest paid director did not exercise shares under long term incentive plans (2023: the highest paid director did not exercise shares under long term incentive plans).

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 Devonport Royal Dockyard 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 £2.08million (2023: £0.8 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £1.7million (2023: £0.67 million).

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)

	Options awarded Number	Share price at grant or modification date Pence	Expecte d 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
2023 PSP	1,259,67	371	32.6%	4.0	100.0%	–	334	–	01/08/23
2023 PSP	1,234,90	371	–	4.0	100.0%	–	371	–	01/08/23
2023 PSP	737,280	371	32.6%	6.0	100.0%	–	334	–	01/08/23
2023 PSP	78,571	413	32.0%	6.0	100.0%	–	372	–	29/09/23
2023 PSP	822,036	413	–	6.0	100.0%	–	413	–	29/09/23
2023 PSP	42,077	385	–	3.0	100.0%	–	385	–	15/12/23
2023 PSP	127,553	385	–	4.0	100.0%	–	385	–	15/12/23
2023 PSP	131,707	385	32.0%	6.0	100.0%	–	347	–	15/12/23
2023 DBP	129,095	371	–	4.0	100.0%	–	371	–	01/08/23
2023 DBP	179,247	371	–	2.0	100.0%	–	371	–	01/08/23
2022 PSP	2,302,00	351	19.0%	4.0	100.0%	–	351	–	01/08/22

Notes to the financial statements *(continued)*

9 Share based payments *(continued)*

	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	613,078	351	19.0%	6.0	100.0%	–	316	–	01/08/22
2022 PSP	806,511	351	19.0%	6.0	100.0%	169	316	55.0%	01/08/22
2022 DBP	218,895	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 DBP	551,420	351	19.0%	2.0	100.0%	–	351	–	01/08/22
2021 PSP	769,165	372	19.0%	6.0	100.0%	149	316	55.0%	24/08/21
2021 PSP	626,704	380	19.0%	6.0	100.0%	–	325	–	24/09/21
2021 PSP	1,780,84	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2021 DBP	45,312	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2020 PSP	695,458	350	19.0%	6.0	100.0%	–	305	–	01/12/20
2020 PSP	2,091,24	350	19.0%	4.0	100.0%	–	350	–	01/12/20
2020 PSP	1,341,47	350	19.0%	6.0	100.0%	138	305	55.0%	01/12/20
2020 DBP	118,320	289	19.0%	4.0	100.0%	–	289	–	03/08/20
2020 DBP	192,096	284	19.0%	4.0	100.0%	–	284	–	13/08/20

The vesting period and the expected life of PSP awards are three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

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. 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.

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

For PSP awards made in August to December 2023, 3,611,764 were made via the use of restricted shares with a three-year to five-year vesting period.

There are no performance conditions attached. A further 822,036 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

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.

Notes to the financial statements *(continued)*

9 Share based payments *(continued*

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 116,711 matching shares (2023: 140,340 matching shares) at a cost of £0.4 million (2023: £0.4 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 (2023: no matching shares) and 2,192 matching shares vested (2023: 1,055 matching shares) leaving a balance of 3,726 matching shares (2023: 5,918 matching shares).

10 Tax

Income tax expense

	2024	2023
	£000	£000
Current tax:		
Current tax charge for the year	**-**	-
Deferred tax:		
Origination and reversal of timing differences	**19,140**	5,130
Impact of change in UK tax rate	**-**	(277)
UK prior year expense	**4,110**	10,418
Total income tax expense	**23,250**	15,271

The tax for the year is higher (2023: higher) than the standard rate of corporation tax in the UK. The differences are explained below:

	2024	2023
	£000	£000
Profit before tax	**72,820**	75,625
Profit before taxation multiplied by standard UK corporation tax rate of 25% (2023: 19%)	**18,205**	14,369
Effects of:		
Group relief claimed	**(257)**	(10,011)
Expenses not deductible for tax purposes	**1,192**	773
Adjustments in respect of prior periods	**4,110**	10,418
Deferred tax - change in UK rate of tax	**-**	(277)
Total tax charge for the year	**23,250**	15,272

Notes to the financial statements *(continued)*

10 Tax *(continued)*

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 2023 that are expected to reverse after 1 April 2023 have been calculated at 25%.

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	2024 £000	2023 £000
Deferred tax asset	**3,261**	5,975
	3,261	5,975

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

	Tangible assets £000	**Retirement benefit obligations £000**	**Tax losses £000**	**Other £000**	**Total £000**
At 1 April 2023	(13,251)	19,226	-	-	5,975
Income statement (debit)/credit	(14,046)	(9,904)	-	700	(23,250)
Tax credit to other comprehensive income/equity	-	20,536	-	-	20,536
At 31 March 2024	(27,297)	29,858	-	700	3,261
At 1 April 2022	(3,989)	(25,917)	-	48	(29,858)
Income statement (debit)/credit	(9,262)	(5,973)	-	(36)	(15,271)
Tax (debit)/credit to other comprehensive income/equity	-	51,115	-	(11)	51,104
At 31 March 2023	(13,251)	19,226	-	-	5,975

Deferred tax assets are recognised for pension liabilities accrued in the financial statements that are deductible for tax purposes only when paid. The directors are of the opinion that the Company will generate suitable taxable profits from which the future reversal of the timing difference can be deducted.

Notes to the financial statements *(continued)*

11 Intangible assets

	Intangible Software (IS) £000	Assets Under Construction (AUC) £000	Intangible Total £000
Cost			
At 1 April 2023	57,412	23,839	81,251
Additions	-	17,523	17,523
Transfer from AUC	1,881	(1,881)	-
Disposals	(287)	(173)	(460)
At 31 March 2024	**59,006**	**39,308**	**98,314**
Accumulated amortisation and impairment			
At 1 April 2023	(56,467)	-	(56,467)
Amortisation	(1,346)	-	(1,346)
Disposals	287	-	287
At 31 March 2024	**(57,526)**	**-**	**(57,526)**
Net book value at 31 March 2024	**1,480**	**39,308**	**40,788**

	Intangible Software (IS) £000	Assets Under Construction (AUC) £000	Intangible Total £000
Cost			
At 1 April 2022	56,679	2,986	59,665
Additions	4	16,292	16,296
Transfer from AUC	729	(729)	-
Reclassification of AUC (note 12)	-	5,290	5,290
Disposals	-	-	-
At 31 March 2023	57,412	23,839	81,251
Accumulated amortisation and impairment			
At 1 April 2022	(55,550)	-	(55,550)
Amortisation	(917)	-	(917)
At 31 March 2023	(56,467)	-	(56,467)
Net book value at 31 March 2023	945	23,839	24,784

Due to the nature of the assets, a number of assets under construction have been reclassified from Intangible Assets to Property, Plant and Equipment.

12 Property, plant and equipment

	Freehold Property (LB) £000	Plant and Equipment (PE) £000	Assets Under Construction (AUC) £000	Total £000
Cost				
At 1 April 2023	148,450	370,130	65,506	584,086
Additions	3,016	18,632	45,314	66,962
Transfer from AUC	106	12,938	(13,044)	-
Disposals	(18)	(2,301)	(523)	(2,842)
At 31 March 2024	**151,554**	**399,399**	**97,253**	**648,206**
Accumulated depreciation				
At 1 April 2023	(87,982)	(298,391)	-	(386,373)
Charge for the year	(4,736)	(20,179)	-	(24,915)
At 31 March 2024	**(92,718)**	**(318,570)**	**-**	**(411,288)**
Net book value at 31 March 2024	**58,836**	**80,829**	**97,253**	**236,918**

Cost				
At 1 April 2022	115,827	332,413	106,568	554,808
Additions	4,616	4,439	25,513	34,568
Transfer from AUC	28,007	33,278	(61,285)	-
Reclassification of AUC (note 11)	-	-	(5,290)	(5,290)
At 31 March 2023	148,450	370,130	65,506	584,086
Accumulated depreciation				
At 1 April 2022	(83,980)	(278,504)	-	(362,484)
Charge for the year	(4,002)	(19,887)	-	(23,889)
At 31 March 2023	(87,982)	(298,391)	-	(386,373)
Net book value at 31 March 2023	60,468	71,739	65,506	197,713

Due to the nature of the assets, a number of assets under construction have been reclassified from Intangible Assets to Property, Plant and Equipment.

Notes to the financial statements *(continued)*

13 Leases

Right of use assets	Property £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2023	27,969	5,605	33,574
Additions	29	3,419	3,448
Terminations	(74)	(540)	(614)
At 31 March 2024	**27,924**	**8,484**	**36,408**
Accumulated depreciation			
At 1 April 2023	(6,924)	(3,022)	(9,946)
Charge for the year	(1,920)	(1,321)	(3,241)
Terminations	200	584	784
At 31 March 2024	**(8,644)**	**(3,759)**	**(12,403)**
Net book value			
At 31 March 2024	**19,280**	**4,725**	**24,005**
At 31 March 2023	21,045	2,583	23,628

Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2024 £000	2023 £000
At 1 April	**26,570**	10,509
Additions	**3,450**	18,824
Disposals	**(8)**	(743)
Interest charged	**1,585**	609
Payments	**(4,656)**	(2,629)
At 31 March	**26,941**	26,570

Notes to the financial statements *(continued)*

13 Leases *(continued)*

Discounted future minimum lease payments are as follows:

	2024	2023
	£000	£000
Within one year	**2,993**	2,763
In more than one year, but not more than five years	**8,503**	7,579
After five years	**15,445**	16,228
Carrying value of liability	**26,941**	26,570

The Company had total cash outflows for leases of £4,656,000 for the year ended 31 March 2024 (2023: £2,629,000).

The following are the amounts recognised in profit or loss:

	2024	2023
	£000	£000
Expense relating to short-term leases	**9**	9
Expense relating to leases of low-value assets	**2**	2
	11	11

14 Investments

	2024			2023		
	Shares in group undertakings	**Shares in joint Ventures**	**Total**	Shares in group undertakings	Shares in joint ventures	Total
	£000	**£000**	**£000**	£000	£000	£000
Carrying amount at 1 April and 31 March	**-**	**393**	**393**	-	1,454	1,454

The investment represents 48% shareholding in Duqm Naval Dockyard. The directors believe that the carrying value of investments is supported by their underlying net assets.

15 Inventories

	2024	2023
	£000	£000
Raw materials	**5,914**	16,425

The cost of inventory recognised as an expense and included in 'cost of revenue' amounted to £54,461,899 (2023: £63,268,737).

16 Trade and other receivables

	2024	2023
	£000	£000
Amounts due after more than one year:		
Amounts due from group undertakings	**786,255**	800,875
	786,255	800,875

These amounts are not expected to be settled within the next twelve months.

Amounts due from group undertakings comprise the following:

- Eight loans totalling £655,106,000 (2023: ten loans totalling £700,726,000) are repayable on demand, with no interest charge.
- A loan of £4,000,000 (2023: £4,000,000) bearing interest of SONIA+1% and repayable on demand.
- A loan of £1,500,000 (2023: £1,500,000) bearing interest of 0.1% and repayable on demand.
- All other amounts due from group undertakings are unsecured, interest free and repayable on demand.

	2024	2023
	£000	£000
Amounts falling due within one year:		
Trade receivables	**8,752**	16,064
Amounts recoverable on contracts	**80,038**	66,460
Other receivables	**10,736**	6,881
Amounts due from group undertakings	**55,264**	53,357
Intercompany trade receivables	**16,618**	23,821
Prepayments and accrued income	**6,789**	5,338
	178,197	171,921

Trade receivables are stated after provisions for impairment of £145k (2023: £41k).

Current intercompany trade receivables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due from group undertakings represent intercompany loans which are unsecured, interest free and repayable on demand.

Notes to the financial statements *(continued)*

17 Trade and other payables

	2024 £000	2023 £000
Amounts falling due within one year:		
Trade creditors	**62,663**	60,895
Advance payments	**100,244**	78,369
Amounts owed to parent and group undertakings	**431,334**	445,108
Taxation and social security	**8,135**	7,132
Accruals	**156,700**	180,875
	759,076	772,379

Amounts due from group undertakings comprise the following:

- 10 loan totalling £146,074,000 (2023: 11 loans, £146,058,000) are unsecured, interest free and are repayable on demand.
- All other amounts due from group undertakings are unsecured, interest free and repayable, on demand.

Amounts falling due after more than one year:

	2024 £000	2023 £000
Deferred income	**182**	304
	182	304

Deferred income falling due after more than one year represents revenue deferred to meet the costs of renewing the Frigate Complex Roof.

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.

18 Provisions

The Company had the following provisions during the year:

	Re-organisation £000	**Dilapidation and Contracts £000**	**Total £000**
At 1 April 2023	157	1,879	2,036
Charged to the income statement	2,003	9,244	11,247
	2,160	**11,123**	**13,283**

Notes to the financial statements *(continued)*

18 Provisions *(continued)*

Provisions have been analysed as current and non-current as follows:

	2024 **£000**	2023 £000
Current	**10,483**	422
Non-current	**2,800**	1,614
Total	**13,283**	2,036

The increase in the provision is attributable to the growth in costs associated with loss making contracts, in accordance with the long-term contract guidelines. As a result, the company has adjusted and increased the contract provision to reflect the revised cost estimates.

The lease of the Keynsham office was terminated during the previous financial year. A provision of £1.6m is held in relation to building dilapidations. The remaining contract and warranties provision is held in respect of loss provisions on Equipment Solutions and Support contracts. The reorganisation provision mainly relates to severance costs following a restructure of the organisation.

19 Other financial assets and liabilities

Included in derivative financial instruments at fair value:

	2024		2023	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Current				
Forward FX contracts – cash flow hedges	**45**	**-**	537	(17)
	45	**-**	537	(17)
Non-Current				
Forward FX contracts – cash flow hedges	**-**	**-**	-	-
	45	**-**	537	(17)

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, 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 with compliance to IFRS.

20 Share capital

	2024 **£000**	2023 £000
Allotted, called up and fully paid		
5,350,001 ordinary shares of £1 each (2023: 5,350,001)	**5,350**	5,350
1 special share of £1 each (2023: 1)	**-**	-
	5,350	5,350

Notes to the financial statements *(continued)*

20 Share capital *(continued)*

The special share issued to the Secretary of State for Defence, has rights attaching that effectively give him the power, under certain extreme circumstances set out in the Company's Articles of Association, to overrule the votes of the ordinary shares. In all other respects both classes of shares rank pari passu.

21 Dividends

Dividends declared and paid were £nil (2023: £nil). There are no plans for a final dividend.

22 Guarantees and financial commitments

a) Capital Commitments

As at 31 March 2024 the Company had capital commitments of £30,599,000 (2023 restated: £22,996,000) for the purchase of tangible and intangible fixed assets.

b) Lease Commitments

As at 31 March 2024 the Company had lease commitments of £nil (2023: £nil) for leases not yet commenced.

23 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.

For the year ended 31 March 2024, the Company had no transactions or balances outstanding with related companies that fall outside the FRS 101 exemption criteria.

24 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme (the "Babcock International Group Defined Contribution Scheme") in respect of a number of its employees.

The pension charge for the year represents contributions payable by the Company to the scheme. The amount included in creditors at the year-end in respect of this scheme was £nil (2023: £51,418).

The Company is also a contributing employer to the following defined benefit pension schemes: the "Devonport Royal Dockyard Pension Scheme", the "Babcock International Group Pension Scheme" and the "Citrus Pension Scheme" for the benefit of its employees. The full details of these schemes are disclosed below.

The contributions required to the defined benefit schemes, and the assessment of the assets and liabilities that have accrued to members, and any deficit recovery payments required, are agreed by the participating employer with the trustees of the Schemes who are advised by an independent, qualified actuary.

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

The key risks for the "Devonport Royal Dockyard Pension Scheme" relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases, and indirectly salary increases, and the discount rate used to value the liabilities. The scheme has mitigated some of these risks by taking out longevity swaps in respect of a proportion of pensioners and their spouses, through a common investment committee. This has significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which include capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

Pension costs for defined contribution schemes are as follows:

	2024	2023
	£000	£000
Defined contribution schemes	**20,916**	15,796

The schemes are prudently 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 scheme's investment strategy (subject to consultation). The schemes have an independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

The matching assets for the Babcock International Group Pension Scheme and the Devonport Royal Dockyard Pension Scheme primarily comprise a "Liability Driven Investment" portfolio for each scheme, which invest in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis. For these schemes, there are also investments in investment grade credit, via both segregated portfolios and pooled investment vehicles. The various segregated portfolios and pooled investment vehicle each utilise derivative contracts. The Trustee has authorised the use of derivatives by the investment managers for efficient portfolio management purposes including to reduce certain investment risks such as interest rate risk and inflation risk. The principal investment in derivatives is gilt repurchase agreements, interest rate and inflation swaps in the matching portfolios; total return swaps in the return seeking portfolios. These derivatives are included within the matching assets and equities classifications.

The total actuarial loss recognised in the SOCI in these financial statements was:

	2024	2023
	£000	£000
Devonport Royal Dockyard Pension Scheme	**(82,036)**	(212,005)
Babcock International Group Defined Benefit Scheme	**(57)**	-
Clyde Citrus Pension Scheme	**(47)**	-

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

The total (liability)/asset recognised on the statement of financial position in these financial statements was:

	2024	2023
	£000	£000
Devonport Royal Dockyard Pension Scheme	**(127,532)**	(76,903)
BIG Pension Scheme	**6,535**	3,177
Citrus Pension Scheme	**1,568**	732
	(119,429)	(72,994)

a) Devonport Royal Dockyard Pension Scheme

The IAS 19 valuation has been updated at 31 March 2024 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 2023. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2024**	2023
	%	%
Rate of increase in pensionable salaries	**2.9**	3.0
Rate of increase in pensions (past service)	**2.7**	2.8
Discount rate	**4.8**	4.8
Inflation rate (RPI) – year 1	**2.5**	6.9
Inflation rate (RPI) – thereafter	**3.1**	3.3
Inflation rate (CPI) – year 1	**1.8**	4.7
Inflation rate (CPI) - thereafter	**2.7**	2.8
Weighted average duration of cash flows (years)	**13**	13
Life expectancy from age 65 (male aged 65)	**20.3**	20.5
Life expectancy from age 65 (female aged 65)	**22.2**	22.5
Life expectancy from age 65 (male aged 45)	**21.2**	21.2
Life expectancy from age 65 (female aged 45)	**23.4**	23.5

The Group’s cash contribution rates payable to the scheme in 2024/25 are expected to be as follows:

Future service contribution rate	**17.1%**
Future service cash contributions	**£9.3m**
Deficit contributions	**£12.7m**
Additional longevity swap payments	**£7.3m**
Expected employer cash costs for 2024/25	**£29.3m**
Expected salary sacrifice contributions	**£5.9m**
Expected total employer contributions	**£35.2m**

The changes to the Company statement of financial position at March 2024 and the changes to the Company income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme *(continued)*

	Defined benefit obligations 2024 £000	**Projected income statement 2025 £000**
Initial assumptions	1,294,089	16,945
Discount rate assumptions increased by 0.5%	(76,761)	(4,322)
Discount rate assumptions decreased by 0.5%	85,448	4,031
Inflation rate assumptions increased by 0.5%	61,933	3,279
Inflation rate assumptions decreased by 0.5%	(57,266)	(3,095)
Total life expectancy increased by half a year	24,643	1,245
Total life expectancy decreased by half a year	(24,268)	(1,234)
Salary increases assumptions increased by 0.5%	8,742	482
Salary increases assumptions decreased by 0.5%	(8,390)	(488)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2024 were:

Fair value of plan of assets/(liabilities)	**2024 £000**	2023 £000
Equities	**10,815**	(3,296)
Property	**117,661**	149,040
Absolute return and multi strategy funds	**1,124**	1,429
Bonds	**563,773**	582,863
Matching assets	**586,584**	590,851
Active position on longevity swaps	**(113,400)**	(101,700)
Total assets	**1,166,557**	1,219,187
Present market value of liabilities – funded	**(1,294,089)**	(1,296,090)
Gross pension (deficit)	**(127,532)**	(76,903)

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

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme *(continued)*

The scheme does not invest directly in assets or shares of Babcock International Group PLC. Investments have been valued for this purpose at fair value at the statement of financial position date. Equity investments and bonds are valued at bid price.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

Analysis of amount charged to the income statement	**2024**	2023
	£000	£000
Current service cost	**9,717**	16,558
Past service cost	**-**	-
Incurred expenses	**2,147**	2,184
Total included within operating profit	**11,864**	18,742
Net interest expense/(income)	**2,880**	(3,178)
Total charged to the income statement	**14,744**	15,564

Analysis of amount included in statement of comprehensive income ("SOCI")	**2024**	2023
	£000	£000
Actuarial (losses)/gains recognised in the SOCI	**(83,537)**	541,003
Experience (losses)	**(26,169)**	(64,528)
Other gains / (losses)	**27,670**	(688,480)
	(82,036)	(212,005)

Reconciliation of present value of scheme assets, including reimbursement rights	**2024**	2023
	£000	£000
At 1 April	**1,219,187**	1,914,727
Interest on assets	**57,879**	54,332
Actuarial (loss)	**(83,537)**	(716,182)
Actuarial gain on reimbursement rights	**-**	24,300
Benefits paid	**(73,152)**	(105,041)
Contributions paid by employer	**46,151**	46,999
Settlement	**-**	-
Employee contributions	**29**	52
At 31 March	**1,166,557**	1,219,187

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme *(continued)*

Reconciliation of present value of scheme liabilities	2024 £000	2023 £000
At 1 April	**1,296,090**	1,811,060
Current service cost	**9,717**	16,558
Incurred expenses	**2,147**	2,184
Interest cost	**60,759**	47,752
Employee contributions	**29**	52
Benefits paid	**(73,152)**	(105,041)
Experience	**26,169**	64,528
Past service cost	**-**	-
Settlement	**-**	-
Actuarial gain	**(27,670)**	(541,003)
At 31 March	**1,294,089**	1,296,090

b) BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2024 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 2022. The major assumptions used for the IAS 19 valuation were:

Major assumptions	2024 %	2023 %
Rate of increase in pensionable salaries	**2.9**	3.0
Rate of increase in pensions (past service)	**3.1**	3.15
Discount rate	**4.8**	4.8
Inflation rate (RPI) – year 1	**2.6**	6.9
Inflation rate (RPI) – thereafter	**3.2**	3.3
Inflation rate (CPI) – year 1	**1.8**	4.7
Inflation rate (CPI) - thereafter	**2.7**	2.8
Weighted average duration of cash flows (years)	**11**	12
Life expectancy from age 65 (male aged 65)	**21.1**	21.3
Life expectancy from age 65 (female aged 65)	**23.7**	23.9
Life expectancy from age 65 (male aged 45)	**22.1**	21.8
Life expectancy from age 65 (female aged 45)	**24.9**	24.4

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

b) BIG Pension Scheme *(continued)*

The Group's cash contribution rates payable to the scheme in 2024/25 are expected to be as follows:

Future service contribution rate	**30.3%**
Future service cash contributions	**£3.0m**
Deficit contributions	**-**
Additional longevity swap payments	**-**
Expected employer cash costs for 2023/24	**£3.0m**
Expected salary sacrifice contributions	**£0.4m**
Expected total employer contributions	**£3.4m**

The changes to the Babcock International Group PLC balance sheet at March 2024 and the changes to the Babcock International Group PLC income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2024 £000	**Projected income statement 2025 £000**
Initial assumptions	919,661	1,068
Discount rate assumptions increased by 0.5%	(47,943)	(3,266)
Discount rate assumptions decreased by 0.5%	52,825	3,029
Inflation rate assumptions increased by 0.5%	28,224	1,587
Inflation rate assumptions decreased by 0.5%	(27,216)	(1,519)
Total life expectancy increased by half a year	19,183	952
Total life expectancy decreased by half a year	(17,756)	(883)
Salary increase assumptions increased by 0.5%	2,299	216
Salary increase assumptions decreased by 0.5%	(2,187)	(205)

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 2024 were:

Fair value of plan of assets	**2024**	2023
	£000	£000
Equities	**5,749**	569
Property	**94,489**	101,475
High yield bonds/emerging market debt	**6**	5
Absolute return and multi strategy funds	**-**	-
Bonds	**438,844**	450,971
Matching assets	**525,026**	525,991
Active position on longevity swaps	**(50,000)**	(51,400)
Total assets	**1,014,114**	1,027,611
Present market value of liabilities - funded	**(919,661)**	(959,486)
Gross pension surplus	**94,453**	68,125

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

b) BIG Pension Scheme *(continued)*

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 2024, 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	**2024 £000**	2023 £000
Current service cost	**2,982**	5,172
Incurred expenses	**4,077**	2,499
Past service cost		-
Total included within operating profit	**7,059**	7,671
Net interest Cost	**(3,837)**	(4,774)
Total charged to the income statement	**3,222**	2,897

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 £209k for service cost (2023: £nil), £285k for incurred expenses (2023: £nil), and net interest credit of £269k (2023: £nil).

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")	**2024 £000**	2023 £000
Actual return less interest on pension scheme assets	**63,833**	314,802
Experience losses arising on scheme liabilities	**(6,768)**	(18,000)
Changes in assumptions on scheme liabilities	**(27,514)**	(429,099)
Other gains		16,176
	29,551	(116,121)

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 £57k (2023: £nil).

The equity investments and bonds are valued at bid price.

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

b) BIG Pension Scheme *(continued)*

Reconciliation of present value of scheme assets in Babcock International Group PLC	**2024 £000**	2023 £000
At 1 April	**1,079,011**	1,523,032
Interest cost	**51,156**	40,389
Employee contributions	**62**	71
Employer contributions	**59,101**	12,977
Benefits paid	**(57,516)**	(68,359)
Actuarial (loss) / gain	**(67,700)**	(429,099)
At 31 March	**1,064,114**	1,079,011
Total Fair value of reimbursement rights	**(50,000)**	(51,400)

Reconciliation of present value of scheme liabilities	**2024 £000**	2023 £000
At 1 April	**959,486**	1,283,066
Service cost	**2,982**	5,172
Incurred expenses	**4,077**	2,499
Interest on liabilities	**44,852**	33,839
Employee contributions	**62**	71
Actuarial gain – demographics	**(20,342)**	(8,864)
Actuarial gain – financial	**(7,172)**	(305,938)
Experience (loss) / gains	**(6,768)**	18,000
Benefits paid	**(57,516)**	(68,359)
Past service cost	**-**	-
At 31 March	**919,661**	959,486

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 £6,534k (2023: £3,177k).

c) Clyde Citrus pension scheme

The IAS 19 valuation has been updated at 31 March 2024 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.

Notes to the financial statements (continued)

24 Pension commitments *(continued)*

c) Clyde Citrus pension scheme *(continued)*

The major assumptions used for the IAS 19 valuation were:

Major assumptions	2024 %	2023 %
Rate of increase in pensionable salaries	**2.9**	3.0
Rate of increase in pensions (past service)	**2.25**	2.3
Discount rate	**4.90**	4.8
Inflation rate (RPI)	**-**	-
Inflation rate (RPI) – year 1	**-**	6.9
Inflation rate (RPI) – thereafter	**3.0**	3.3
Inflation rate (CPI)	**-**	-
Inflation rate (CPI) – year 1	**-**	4.7
Inflation rate (CPI) - thereafter	**2.7**	2.8
Weighted average duration of cash flows (years)	**28**	13
Life expectancy from age 65 (male aged 65)	**19.1**	19.1
Life expectancy from age 65 (female aged 65)	**22.4**	22.4
Life expectancy from age 65 (male aged 45)	**20.1**	20.1
Life expectancy from age 65 (female aged 45)	**23.7**	23.7

The Group's cash contribution rates payable to the scheme in 2024/25 are expected to be as follows:

Future service contribution rate	-
Future service cash contributions	£2.5m
Deficit contributions	Nil
Expected employer cash costs for 2024/25	£1.6m
expected salary sacrifice contributions	0.7
Expected total employer contributions	£4.8m

The changes to the balance sheet at March 2024 and the changes to the income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations	**Projected income statement**
	2024	**2025**
	£000	**£000**
Initial assumptions	2,447	725
Discount rate assumptions increased by 0.5%	(305)	(140)
Discount rate assumptions decreased by 0.5%	351	128
Inflation rate assumptions increased by 0.5%	172	59
Inflation rate assumptions decreased by 0.5%	(160)	(54)
Total life expectancy increased by half a year	39	13
Total life expectancy decreased by half a year	(39)	(13)

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

c) Clyde Citrus pension scheme *(continued)*

	Defined benefit obligations 2024 £000	Projected income statement 2025 £000
Salary increase assumptions increased by 0.5%	33	12
Salary increase assumptions decreased by 0.5%	(32)	(12)

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 2024 were:

Fair value of plan assets	**2024 £000**	2023 £000
Equities	**398**	112
Property	**240**	240
Absolute return and multi strategy funds	**575**	398
Bonds	**1,837**	1,683
Matching assets	**965**	53
Total assets	**4,015**	2,486
Present market value of liabilities - funded	**(2,447)**	(1,754)
Gross pension surplus	**1,568**	732

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 2024, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement	**2024 £000**	2023 £000
Current service cost	**698**	1,226
Incurred expenses	**111**	76
Net interest credit	**(55)**	(2)
Total included within operating profit	**809**	1,302
Total charged to the income statement	**754**	1,300

The amounts charged to the income statement in these financial statements, included £698k for service cost (2023: nil), incurred expenses of £111k (2023: £nil) and net interest credit of £55k (2023: nil).

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

c) Clyde Citrus pension scheme *(continued)*

The scheme transferred to the Company on 31 March 2023, hence no impact on Income statement in prior year.

Analysis of amount included in Babcock International Group PLC statement of comprehensive income ("SOCI")

	2024 £000	2023 £000
Actuarial gain recognised in the SOCI	**122**	1,328
Experience gain/(loss) on liabilities	**17**	(127)
Loss on assets	**(92)**	(560)
	47	641

The actuarial gain recognised in the SOCI in these financial statements, was £47k (2023: nil).
The scheme transferred to the Company on 31 March 2023, hence no impact on SOCI in prior year.

Analysis of movement in the financial statement:

Reconciliation of present value of scheme assets

	2024 £000	2023 £000
At 1 April	**2,486**	1,721
Interest on assets	**155**	64
Employer contributions	**1,637**	1,381
Benefits paid	**(122)**	(120)
Actuarial losses	**(141)**	(560)
At 31 March	**4,015**	2,486

Reconciliation of present value of scheme liabilities

	2024 £000	2023 £000
At 1 April	**1,754**	1,711
Service cost	**698**	1,226
Incurred expenses	**111**	76
Interest on liabilities	**100**	62
Actuarial (gain) – demographics	**(5)**	(21)
Actuarial (gain) – financial	**(87)**	(1,307)
Experience losses /(gains)	**17**	127
Benefits paid	**(141)**	(120)
At 31 March	**2,447**	1,754

Notes to the financial statements *(continued)*

24 Pension commitments *(continued)*

c) Clyde Citrus pension scheme *(continued)*

The surplus recognised in these financial statements was £1,568k (2023 £732k).

Virgin Media Case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the Company's pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing having taken place in June 2024. The potential impact on the Company is not yet known and continues to be assessed.

25 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 Overdrawn balance of £8.3m as at 31 March 2024 (31 March 2023: Utilisation of £21.0m).

26 Post balance sheet events

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

27 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Marine (Devonport) 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 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