Classification:UNCLASSIFIED

Devonport Royal Dockyard Limited

Annual report

For the year ended 31 March 2021

Company registration number:

02077752

Devonport Royal Dockyard Limited

Directors and advisors

Current Directors
S C Bowen
R Foran
P Foster
N M Fox
D Kieran
A D H Mathews
A Spurr

Company Secretary
J M Wood

Registered Office
Devonport Royal Dockyard
Devonport
Plymouth
PL1 4SG

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Temple Quay
Bristol
BS2 0FR

Devonport Royal Dockyard Limited

Strategic report for the year ended 31 March 2021

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

Principal activities

The Company'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 the Devonport Royal Dockyard, 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.

Review of the business

	2021	2020
	£000	£000
Revenue	**814,230**	790,813
Profit for the financial year	**58,079**	82,807

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

Following a restructure of Babcock International Group PLC's ("Babcock") operating model, the Company's Submarine and Naval Base Services activities now form part of the Nuclear Sector of Babcock, whilst Warship and other services continue to form part of the Marine Sector. The Company continues to participate in a wide range of initiatives that are intended to deliver key elements of the MOD's maritime change programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MOD enterprise, whilst ensuring that important naval design, build and support capabilities are retained.

The MOD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully. The operative contract of the ToBA framework for the financial year was the Maritime Support Delivery Framework ("MSDF"), which included all allocated Warship Upkeep, Ships and Submarine fleet time support, along with elements of Engineering Services design activities. This contract expired at the end of March 2021 and is being replaced by the Future Maritime Support Programme ("FMSP") which provides continuity of these activities for a further 5 year period please options to extend up to a further 2 years at the end of the core term. FMSP is being contracted as four separate Qualifying Defence Contracts ("QDCs") under the Defence Reform Act and is subject to the Single Source Contracting Regulations. Deep maintenance of Vanguard class submarines, which were previously contracted separately, will be included in the FMSP scope for future vessels as will deep maintenance for the Astute class submarines.

The provision of fleet time maintenance to the nuclear-powered submarine flotilla based at Devonport continued during the year, in parallel with the Deep Maintenance Period (Refuel) and life extension on a Vanguard Class submarine. This is the fifth refuelling of a Trident Class submarine at Devonport. The reduction in Company profit from the prior financial year mainly reflects a loss reported against this contract.

Review of the business *(continued)*

During the year, the Company progressed design work relating to the strategic infrastructure upgrades required to support the future deep maintenance of new Naval platforms. This work will continue through detailed design and construction work over the following few years.

The Company is also providing engineering support in 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, which are encompassed under the MSDF contract. Six upkeeps at various stages were undertaken in year within the Surface Ships Support Alliance ("SSSA"). This included an amphibious platform which is approximately half way through a five year Optimised Support Period. Five Type 23 frigate upkeeps were also undertaken in year and are at various stages of completion. All have accommodated significant scope growth due to ageing and upgrade requirements. A number of other Fleet Time Support Periods on surface ships were also carried out. The Company has also provided engineering support in the future warship programmes for Queen Elizabeth Class ("QEC") Aircraft Carriers and the Type 23 replacement frigate.

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 flotilla.

Striving for, and maintaining, an excellent Health and Safety record remains a fundamental objective across the Devonport site. The leadership of health and safety and environment has been strengthened with a blend of expertise from similar sites and promoting internal talent. A range of improvements are being progressed including culture, governance, learning from ourselves and others, leadership for safety and the environment, delegating and empowering expertise to manage the main hazards, and implementing improved management tools and training. Zero harm and zero waste to land fill are key objectives. From a regulatory compliance perspective, Forward Action Plans have been agreed with the Office for Nuclear Regulation ("ONR") who will monitor progress. This includes the Nuclear Safety Improvement Programme which has been refreshed with increased expertise to deliver sustainable improvements.

The COVID-19 pandemic has had an impact, to varying degrees, throughout the year. Working closely with the MOD, the Company continued to implement government guidelines and review operational support priorities.

Principal risks and uncertainties

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

Principal risks and uncertainties *(continued)*

The key risks and uncertainties affecting the Company 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 pension schemes. The directors manage this risk by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, and including the impact of COVID-19, is provided on pages 84 to 95 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

Under the new FMSP contract, commencing in 2021/22, 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 SSSA Upkeep programme continues with the commencement of one further Type 23 Frigate upkeep in 2021/22.

Activity will continue during 2021/22 on the Trident submarine Deep Maintenance Period (Refuel) as the programme progresses through key stages of the contract.

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 submarine, new classes of surface warship and modernisation of infrastructure to support future submarine and warship programmes.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MOD.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Marine and Nuclear, two of the divisions of Babcock International Group PLC, both of which include the Company, is discussed on pages 50 to 53 of the annual report of Babcock International Group PLC, which does not form part of this report.

S172(1) statement and stakeholder engagement

This statement explains how the Directors, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole, while having regard for all stakeholders. Section 172(1) requires a director to have regard, among other matters to the

- likely consequences of any decision in the long term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct; and
- need to act fairly as between members of the Company.

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:

Customers
- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership programme
- Work on joint initiatives

Investors
- Annual Report and financial statements
- Babcock website, including dedicated Investor section

Employees
- Employee forums and meetings with representative groups
- Regular employee surveys
- CEO and senior management vlogs
- Regular updates on the intranet and company briefings
- Apprentice and Graduate programmes
- Regular training, including on Code of Conduct

Regulators
- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries

Suppliers
- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier due diligence

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

Communities

- Sponsorship
- Employee volunteering
- STEM Ambassadors
- Engagement with local community programmes

On behalf of the board

P Foster
Director
2 November 2021

Directors' report for the year ended 31 March 2021

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2021.

Dividends

An interim dividend of £30,000,000 (2020: £30,000,000) representing 560.75 pence (2020: 560.75 pence) per ordinary share was declared and paid in the year. No final dividend for the year ended 31 March 2021 is proposed by the directors (2020: £nil).

Future developments

There are no plans to alter significantly the business of the Company.

Financial risk management

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

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

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

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

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

Interest rate cash flow risk
The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Financial risk management *(continued)*

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	(appointed on 25 June 2020)
P Foster	(appointed on 15 October 2020)
N M Fox	(appointed on 17 February 2021)
S A French	(resigned 18 June 2020)
M S Homer	(resigned 18 August 2021)
D Kieran	(appointed 15 September 2021)
A D H Mathews	
A Spurr	

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

Environment

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulation.

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

In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent:
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 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 also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Corporate governance

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.

No formal corporate governance code has been adopted in the last financial year. The directors have applied the following governance activities throughout the year and will continue to monitor the appropriateness of any formal corporate governance code:

Corporate governance *(continued)*

- The directors work with the ONR and DNSR, who are the independent regulators of the Devonport licensed and authorised site for nuclear activities. The regulators set out regulatory requirements and the directors determine and justify how best to achieve those requirements on an as low as reasonably possible risk basis. The directors are in regular dialogue with ONR representatives. The Company has an internal assurance director who conducts internal regulation, monitors compliance against arrangements and works closely with ONR.
- The Company has adopted a suite of Safety arrangements which comply with ONR's and DNSR's guidance, which documents and demonstrates the adequacy of the Company's arrangements for managing the nuclear licensed site. These are subject to regular scrutiny and are updated in line with continuous improvement principles.
- The Company maintains a strong Board which is comprised of an appropriate mix of suitably qualified and experienced executive and non- executive directors whose experiences and skills complement each other. Each director has a clearly defined role and responsibilities.
- Any new appointees to the Board are required to demonstrate that they are suitably qualified and experienced to take on the role. The approval of the Secretary of State for Defence is required to any prospective appointee in accordance with the rights attaching to the one Special Share of £1 in the capital of the Company. Board members are expected to dedicate sufficient time maintaining appropriate skills and knowledge to discharge their duties appropriately.
- The Company complies with an internal scheme of delegated authorities, which means that any significant transaction is required to be approved in accordance with strict internal governance procedures involving both Sector and Group.
- The Board understands its responsibility in ensuring that the financial statements present a fair, balanced and understandable assessment of the Company's position and prospects. All key risks are properly disclosed and described within the annual report and financial statements and appropriate and robust internal control mechanisms are in place. In particular a robust and independent external audit function, a strong internal audit function that reports to senior management not directly responsible for the entity, a functional reporting structure which encourages accurate reporting through key disciplines (such as finance), and a strong local control environment. The Company's auditors are appointed at a Group level and are appointed through a transparent and robust tender and review process.
- The issued equity shares of the Company are held by Babcock International Group PLC through a number of intermediate holding companies; as such the requirement to communicate with investors is minimal.

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.

Reappointment of auditors

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

On behalf of the board

P Foster

P Foster
Director
2 November 2021

Independent auditors' report to the members of Devonport Royal Dockyard Limited

Report on the audit of the financial statements

Opinion

In our opinion, Devonport Royal Dockyard Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report, which comprise: the Statement of financial position as at 31 March 2021; the Income statement, Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

- Obtaining managements forecasts and going concern paper setting out the key assumptions, and considering the reasonableness of these forecasts in light of past performance.
- We have considered the audit procedures performed at the group level over the group's liquidity, funding and covenant compliance, given that the company has given guarantees or has joint and several liability for Babcock International Group's bank facilities.
- We have considered the sensitivity of management forecasts to a severe but plausible downside scenario.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

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

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

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

Reporting on other information

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

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

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

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

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to defence contracting, health and safety legislation and tax regulations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to manipulation of results to achieve management objectives through improper revenue / profit recognition, given the judgemental nature of contract accounting, and the inappropriate recording of costs or expenses given the complex nature of the industry in which the entity operates. Audit procedures performed by the engagement team included:

- Understanding of managements' policies and procedures
- Enquiries of management, testing of journals
- Testing a sample of long term revenue contracts with particular focus on individually material contracts and those incorporating significant management estimates and / or judgements

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

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

Use of this report

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

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

KE Finn

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

2 November 2021

Devonport Royal Dockyard Limited

Income statement

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Revenue	4	**814,230**	790,813
Cost of sales		**(769,565)**	(690,487)
Gross profit		**44,665**	100,326
Other income	2	**13,168**	-
Operating profit	6	**57,833**	100,326
Finance income	5	**6,467**	5,820
Finance costs	5	**(591)**	(781)
Profit before taxation		**63,709**	105,365
Income tax expense	10	**(5,630)**	(22,558)
Profit for the financial year		**58,079**	82,807

All of the above results derive from continuing operations.

Statement of comprehensive income

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Profit for the financial year		**58,079**	82,807
Other comprehensive (expense)/income:			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges		**(178)**	42
Tax on fair value adjustment of interest rate and foreign exchange hedges	21	**34**	(8)
Items that will not be subsequently reclassified to income statement:			
(Loss) on measurement of net defined benefit obligation	26	**(221,724)**	(7,056)
Tax on net defined benefit obligation	21	**42,127**	1,341
Impact of change in rate of taxation	21	**-**	(3,435)
Total other comprehensive (expense)		**(179,741)**	(9,116)
Total comprehensive (expense)/income for the year		**(121,662)**	73,691

Devonport Royal Dockyard Limited

Statement of financial position

as at 31 March 2021

	Note	2021 £000	2020 £000
Non-current assets			
Intangible assets	11	**2,502**	9,446
Tangible assets	12	**159,739**	152,460
Right-of-use assets	13	**9,192**	10,991
Investments	14	**1,015**	1,015
Retirement benefits surpluses	26	**12,931**	199,561
		185,379	373,473
Current assets			
Inventories	15	**7,957**	7,397
Trade and other receivables	16	**591,824**	610,306
Corporation tax recoverable		**38,398**	27,219
Other financial assets	20	**-**	54
Cash and cash equivalents		**118,341**	75,139
		756,520	720,115
Current liabilities			
Trade and other payables – amounts falling due within one year	17	**(412,879)**	(372,487)
Lease liabilities	18	**(1,870)**	(2,044)
Other financial liabilities	20	**(124)**	-
Corporation tax payable		**(107,063)**	(113,076)
Net current assets		**234,584**	232,508
Total assets less current liabilities		**419,963**	605,981
Non-current liabilities			
Trade and other payables – amounts falling due after more than one year	17	**(547)**	(669)
Lease liabilities	18	**(8,111)**	(9,686)
Deferred tax liability	21	**(4,218)**	(40,612)
Provisions for other liabilities and charges	19	**(3,747)**	(12)
Net assets		**403,340**	555,002
Equity			
Called up share capital	22	**5,350**	5,350
Share premium account		**32,700**	32,700
Hedging reserve	20	**(124)**	54
Retained earnings		**365,414**	516,898
Total shareholders' funds		**403,340**	555,002

The notes on pages 20 to 48 are an integral part of these financial statements. The financial statements on pages 16 to 48 were approved by the board of directors on 2 November 2021 and signed on its behalf by:

P Foster
Director
2 November 2021

Devonport Royal Dockyard Limited

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

	Note	Called up share capital £000	Share premium £000	Hedging reserve £000	Retained earnings £000	Total Shareholders' funds £000
Balance at 1 April 2019		**5,350**	**32,700**	**12**	**473,893**	**511,955**
Profit for the financial year		**-**	**-**	**-**	**82,807**	**82,807**
Other comprehensive loss		**-**	**-**	**42**	**(9,151)**	**(9,109)**
Transition to IFRS16: Leases		**-**	**-**	**-**	**(651)**	**(651)**
Dividends paid	23	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance at 31 March 2020		**5,350**	**32,700**	**54**	**516,898**	**555,002**
Profit for the financial year		**-**	**-**	**-**	**58,079**	**58,079**
Other comprehensive loss		**-**	**-**	**(178)**	**(179,563)**	**(179,741)**
Dividends paid	23	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance at 31 March 2021		**5,350**	**32,700**	**(124)**	**365,414**	**403,340**

1 General information

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

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand (£000).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Babcock Marine (Devonport) Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

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

e) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases
g) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

h) IAS 7, 'Statement of cash flows'
i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

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

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have a material impact on the Company's financial statements.

Revenue

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

(a) Performance obligations

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

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. The Company's contracts typically do not include significant financing components.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition

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

- the customer simultaneously receives and consumes the benefits of the Company's performance as it performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done; or
- the Company's performance creates or enhances an asset controlled by the customer.

Most of the Company's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because the customer simultaneously receives and consumes the benefits of the Company's performance as it performs or the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done.

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

If a performance obligation is not satisfied over time, then revenue is recognised at the point in time that control is transferred to the customer. Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to payment by the Company.

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made. Any expected loss on a contract is recognised immediately in the income statement.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(d) Costs of obtaining a contract

Pre-contract costs are recognised as expenses as incurred, except that directly attributable costs incurred from the point that it can be reliably expected that a contract will be obtained, typically at preferred bidder stage, are recognised as an asset in capitalised contract costs and amortised over the life of the contract, provided that the contract is expected to result in future net cash inflows.

(e) Contract mobilisation costs

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

Government grants

Government grants relating to costs are recognised as income over the periods necessary to match them with the related costs and are presented as other income credit in the income statement. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure. Other income reflected in the income statement of £13,168,000 (2020: £nil) relates to income received from the Government for non-productive COVID-19 costs.

Intangible assets

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

(a) Computer software

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.

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment 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.

Capitalised interest is recognised for projects with costs exceeding £250,000 and duration greater than three months. Interest capitalised during the year is not charged to the Company by Babcock International Group PLC. The interest cost is settled by the Group, and is disclosed in the annual report of Babcock International Group PLC. A capitalisation rate of 3% (2020: 3%) was used to determine the amount of borrowing costs eligible for capitalisation.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Inventory and work in progress

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

Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors are classified as financial assets held at amortised cost. Trade creditors, amounts due to related parties, other creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

The Company assesses on a forward-looking basis the expected credit losses associated with financial assets held at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

Share based payments

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

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pension costs and other post-retirement benefits

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

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, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

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

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

2 Summary of significant accounting policies *(continued)*

Pension costs and other post-retirement benefits *(continued)*

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.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

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

Lessee Accounting

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised.

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

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.

Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inceptions based on a number of factors including asset type, lease currency and lease term.

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 or low value leases are expensed straight line to the income statement as permitted by IFRS 16 'Leases'. A lease is considered short term if the total lease length is less than 12 months, and low value if the underlying asset would cost less than £5,000 to buy new.

Provisions for liabilities

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 has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities *(continued)*

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

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

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured at their fair value. The Company designates certain 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, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. The gains or losses deferred in equity are shown in the hedging reserve on the face of the balance sheet. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

Dividend distribution

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

Finance costs

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

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

Revenue and profit recognition

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms.. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 26 for the disclosures of the defined benefit pension scheme.

4 Revenue

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

	2021 £000	2020 £000
By area of activity:		
Sales of goods – transferred at a point in time	**23,058**	39,844
Provision of services – transferred over time	**791,172**	750,969
	814,230	790,813

All revenue relates to sales in the United Kingdom.

5 Finance income and costs

	2021 £000	2020 £000
Finance income:		
Bank interest	**15**	23
Loan interest receivable from group undertakings	**-**	1
Net pension interest income (note 26)	**5,141**	4,441
Capitalised interest	**1,311**	1,355
	6,467	5,820
Finance costs:		
Bank interest	**(74)**	(281)
IFRS 16 interest	**(517)**	(500)
	(591)	(781)

6 Operating profit

Operating profit is stated after charging/(crediting):	2021 £000	2020 £000
Depreciation of property, plant and equipment	**20,668**	27,241
Amortisation of intangible assets	**2,109**	2,274
Right of use depreciation (note 13)	**2,239**	1,906
Operating lease charges		
- Short term leases	**11**	11
Research and development	**11,179**	14,131
Foreign exchange loss	**17**	30
Audit fees payable to the Company's auditors	**282**	156
Intellectual property royalty charge	**12,214**	11,862

Notes to the financial statements *(continued)*

6 Operating profit *(continued)*

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

Cost of sales for the year ended 31 March 2021 also includes research and development tax credits of £11,178,878 (2020: £14,131,000).

7 Staff costs

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

	2021 Number	2020 Number
By activity:		
Operations	**6,396**	5,655
Management and administration	**11**	10
	6,407	5,665

Their aggregate remuneration comprised:

	2021 £000	2020 £000
Wages and salaries	**268,050**	231,513
Social security costs	**27,156**	23,453
Other pension costs	**33,763**	28,615
	328,969	283,581

Included in wages and salaries is a total expense of share-based payments of £340,678 (2020: £201,597) of which £340,678 (2020: £201,597) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £18,915,000 (2020: £18,169,000) in respect of one (2020: one) defined benefit scheme and £11,521,006 (2020: £9,280,893) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

8 Directors' remuneration

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

	2021	2020
	£000	£000
Emoluments (including benefits in-kind)	**799**	959

During the year one (2020: three) director remunerated by Devonport Royal Dockyard Limited exercised share options under long term incentive plans and three (2020: three) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to two directors (2020: three) 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 (2020: 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 (2020: £nil).

Nine directors held office at some point during the year and up to date of signing the annual report. Except for three (2020: four) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2021	2020
	£000	£000
Emoluments (including benefits in-kind but excluding pension contributions)	**522**	528
Defined benefit pension scheme:		
- Accrued pension at the end of the year	**26**	
- Accrued lump sum at the end of the year	**79**	

The highest paid director did exercise shares under long term incentive plans (2020: the highest paid director did 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.

During the year the total charge relating to employee share-based payment plans was £0.3 million (2020: £0.2 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £0.28 million (2020: £0.17 million).

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

DBMP, PSP and DBP[1]

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

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

The PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE. For PSP awards made in December 2020, 2,786,705 were made via the used 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.

There are no performance conditions attached to the DBP.

9 Share based payments *(continued)*

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 180,175 matching shares (2020: 104,759 matching shares) at a cost of £0.5 million (2020: £0.5 million).

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

10 Income tax expense

Tax expense included in income statement

	2021 £000	2020 £000
Current tax:		
UK Corporation tax on profits for the year	**-**	15,888
Double tax relief	**(8)**	(137)
Overseas tax	**8**	137
Adjustment in respect of prior years	**(137)**	(4)
Current tax charge for the year	**(137)**	15,884
Deferred tax:		
Origination and reversal of temporary differences	**6,629**	4,697
Adjustment in respect of prior years	**(862)**	1,491
Impact of change in UK tax rate	**-**	486
Total deferred tax charge (note 21)	**5,767**	6,674
Tax on profit	**5,630**	22,558

10 Income tax expense *(continued)*

Tax (credit) / expense included in other comprehensive income	**2021 £000**	2020 £000
Deferred tax:		
- Origination and reversal of temporary differences	**(42,161)**	(1,333)
- Impact of change in UK tax rate	**-**	3,435
Tax (credit) / expense included in other comprehensive income	**(42,161)**	2,102

Tax expense for the year is lower (2020: higher) than the standard rate of corporation tax in the UK for the year ended 31 March 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £000	2020 £000
Profit before taxation	**63,709**	105,365
Profit before taxation multiplied by standard UK corporation tax rate of 19% (2020: 19%)	**12,105**	20,019
Effects of:		
Group relief claimed	**(6,019)**	-
Expenses not deductible for tax purposes	**543**	566
Overseas tax	**8**	137
Double tax relief	**(8)**	(137)
Adjustments in respect of prior periods	**(137)**	(4)
Deferred tax - change in UK rate of tax	**-**	486
Deferred tax - adjustment in respect of prior periods	**(862)**	1,491
Total tax charge for the year	**5,630**	22,558

In the Spring Budget 2020, the UK Government announced that from 1 April 2020, the corporation tax rate would remain at 19% (rather than reducing to 17%, as previously enacted). The new law was substantively enacted on 17 March 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11 Intangible assets

	Software £000	Total £000
Cost		
At 1 April 2020	65,700	65,700
Additions	2,917	2,917
Disposals	(7,752)	(7,752)
At 31 March 2021	**60,865**	**60,865**
Accumulated amortisation and impairment		
At 1 April 2020	(56,254)	(56,254)
Amortisation of software	(2,109)	(2,109)
At 31 March 2021	**(58,363)**	**(58,363)**
Net book value		
At 31 March 2021	**2,502**	**2,502**
At 31 March 2020	9,446	9,446

As at 31 March 2021, £0.8 million (2020: £1.1 million) of assets were classed as under construction. This primarily relates to the phased roll out/upgrade of software.

12 Tangible assets

	Freehold property £000	Plant and Equipment £000	Total £000
Cost			
At 1 April 2020	127,726	342,274	470,000
Additions	5,996	25,419	31,415
Disposals	(13)	(8,187)	(8,200)
At 31 March 2021	**133,709**	**359,506**	**493,215**
Accumulated depreciation			
At 1 April 2020	(78,307)	(239,233)	(317,540)
Charge for the year	(2,828)	(17,840)	(20,668)
Disposals	8	4,724	4,732
At 31 March 2021	**(81,127)**	**(252,349)**	**(333,476)**
Net book value			
At 31 March 2021	**52,582**	**107,157**	**159,739**
At 31 March 2020	49,419	103,041	152,460

As at 31 March 2021, £61.3 million (2020: £51.5 million) of assets were classed as under construction.

13 Right of use assets

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2020	11,882	4,902	16,784
Additions	170	243	413
Modifications	-	41	41
Terminations	-	(750)	(750)
At 31 March 2021	**12,052**	**4,436**	**16,488**
Accumulated depreciation			
At 1 April 2020	(4,668)	(1,125)	(5,793)
Charge for the year	(898)	(1,341)	(2,239)
Terminations	-	736	736
At 31 March 2021	**(5,566)**	**(1,730)**	**(7,296)**
Net book value			
At 31 March 2021	**6,486**	**2,706**	**9,192**
At 31 March 2020	7,214	3,777	10,991

14 Investments

	2021			2020		
	Shares in group undertakings £000	**Shares in joint ventures £000**	**Total £000**	Shares in group undertakings £000	Shares in joint ventures £000	Total £000
Carrying amount at 1 April and 31 March	-	**1,015**	**1,015**	-	1,015	1,015

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.

Notes to the financial statements *(continued)*

15 Inventories

	2021 £000	2020 £000
Raw materials	**7,957**	7,397

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amount.

The cost of inventory recognised as an expense and included in 'cost of sales' amounted to £56,023,081 (2020: £66,648,932).

16 Trade and other receivables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade receivables	**6,795**	27,483
Amounts recoverable on contracts	**56,149**	61,934
Amounts owed by group undertakings	**515,327**	506,403
Other receivables	**11,240**	11,497
Prepayments and accrued income	**2,313**	2,989
	591,824	610,306

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

There are ten major loans (2020: ten) to group companies:

- A loan of £nil (2020: £nil) is repayable on demand, the interest rate is six monthly LIBOR plus 4%.
- Ten loans totalling £439,838,000 (2020: ten loans totalling £473,819,000) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £nil (2020: £nil).

16 Trade and other receivables *(continued)*

	Amounts due for contract work £000	Total £000
At 1 April 2020	61,934	**61,934**
Transfers from contract assets recognised at the beginning of the year to receivables	(61,934)	(61,934)
Increase due to work done not transferred from contract assets	56,149	56,149
At 31 March 2021	**56,149**	**56,149**

17 Trade and other payables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade creditors	**79,707**	81,029
Advance payments	**37,209**	19,502
Amounts owed to parent and group undertakings	**219,955**	213,489
Taxation and social security	**9,144**	7,598
Contract cost accruals, overhead accruals and deferred income	**66,864**	50,869
	412,879	372,487

Amounts falling due after more than one year:

	2021 £000	2020 £000
Contract cost accruals, overhead accruals and deferred income	**547**	669
	547	669

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

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

17 Trade and other payables *(continued)*

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

	Contract cost accruals £000	Advance payments £000	Total £000
At 1 April 2020	27,836	19,502	**47,338**
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(19,502)	(19,502)
Increase due to cash received, excluding amounts recognised as revenue	-	37,209	37,209
Amounts accrued	39,438	-	39,438
Amounts utilised	(27,836)	-	(27,836)
At 31 March 2021	**39,438**	**37,209**	**76,647**

18 Lease liabilities

The entity leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases. Included within the above are £nil (2020: £nil) of operating lease commitments which are matched in time to customer contracts and are directly attributable to them.

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

	2021 £000	2020 £000
At 1 April 2020	**11,730**	10,443
Additions	**407**	3,600
Disposals	**-**	(292)
Interest charged	**518**	516
Payments	**(2,674)**	(2,537)
At 31 March 2021	**9,981**	11,730

18 Lease liabilities *(continued)*

Discounted future minimum lease payments are as follows:

	2021 £000	2020 £000
Within one year	**1,870**	2,044
In more than one year, but not more than five years	**4,614**	5,528
After five years	**3,497**	4,158
Carrying value of liability	**9,981**	11,730

The Company had total cash outflows for leases of £2,673,526 for the year ended 31 March 2021 (2020: £2,537,183).

The following are the amounts recognised in profit or loss:

	2021 £000	2020 £000
Expense relating to short-term leases	**9**	9
Expense relating to leases of low-value assets	**2**	2
	11	11

19 Provisions for other liabilities and charges

The Company had the following provisions during the year:

	Warranty Provision £000	Contract Provision £000	Total £000
At 1 April 2020	**12**	**-**	**12**
Charged to the income statement	2	3,733	3,735
At 31 March 2021	**14**	**3,733**	**3,747**

The warranty provisions relate to warranty obligations on completed contracts and disposals. The contract provisions relate to potential losses regarding COVID 19 time related costs and a potential SSRO claim relating to R&D tax credits.

Notes to the financial statements *(continued)*

20 Other financial assets and liabilities

Includes the following derivative financial instruments at fair value:

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Derivative financial instruments				
Forward FX contracts – cash flow hedges	-	(124)	54	-
Total	-	(124)	54	-
Less non-current portion				
Forward FX contracts – cash flow hedges	-	-	-	-
Current portion	-	(124)	54	-

	2021		2020	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Foreign currency cash deposits	-	(2,285)	-	(1,678)

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.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

A mix of forward currency contracts and foreign currency cash deposits are being used to hedge the foreign currency risk of the firm commitments. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2021 were (£2,284,921) (2020: (£1,677,508)).

The hedged transactions denominated in foreign currency are due to occur at various dates during the next twelve months. Gains and losses recognised in the hedging reserve in equity as at 31 March 2021 will be recognised in the income statement in the period or periods in which the hedged forecast transactions impact the income statement.

20 Other financial assets and liabilities *(continued)*

Amounts (charged)/credited to other comprehensive income:

	2021 £000	2020 £000
Hedging reserve at 1 April	**54**	12
Amounts (charged)/credited to other comprehensive income:		
- (Loss)/gain on derivative financial instruments maturing in year recycled to income statement	**(54)**	4
- (Loss)/gain on derivative financial instruments recorded under equity	**(124)**	54
- Loss on non-derivative financial instruments	**-**	(16)
	(178)	42
Hedging reserve at 31 March	**(124)**	54

21 Deferred tax liability

The major components of the deferred tax liabilities and deferred tax assets are recorded as follows:

Deferred tax liabilities/(assets)	Accelerated capital allowances £000	Retirement benefit obligations £000	Other £000	Total £000
At 1 April 2020:	**2,698**	**37,916**	**(2)**	**40,612**
- Charged to the income statement	(901)	6,668	-	**5,767**
- Credited to other comprehensive income	-	(42,127)	(34)	**(42,161)**
At 31 March 2021:	**1,797**	**2,457**	**(36)**	**4,218**

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.

22 Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
5,350,001 ordinary shares of £1 each (2020: 5,350,001)	5,350	5,350
1 special share of £1 each (2020: 1)	-	-
	5,350	5,350

22 Called up 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.

23 Dividends

Dividends declared and paid were £30,000,000 (2020: £30,000,000), this is equivalent to 560.75 pence per share (2020: 560.75 pence). There are no plans for a final dividend.

24 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2021 the Company had capital commitments of £25,005,000 (2020: £9,115,000) for the purchase of tangible and intangible fixed assets.

b) Lease Commitments

At 31 March 2021 the Company had lease commitments of £nil for leases not yet commenced.

25 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.

One son of one director was employed by the company during the year. He is employed and paid under the same terms and conditions as other employees performing similar roles in the company.

For the year ended 31 March 2021, the Company had no transactions or balances outstanding with related companies that fall outside the FRS 101 exemption criteria.

26 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 Company is also a contributing employer to a defined benefit pension scheme, the "Devonport Royal Dockyard Pension Scheme" for the benefit of its employees. The full details of this scheme are disclosed below.

The Company was previously a contributing employer to another defined benefit scheme, the "Babcock International Group Pension Scheme", but has no further liabilities to this Scheme. No contributions have been made during this financial year.

26 Pension commitments *(continued)*

The nature of the defined benefit scheme is that the employees contribute to the scheme with the employer paying the balance of the cost required. The contributions required 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 Devonport Royal Dockyard Pension Scheme who are advised by an independent, qualified actuary.

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.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the scheme's investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

The cost included as a charge to the income statement in these financial statements was:

	2021	2020
	£000	£000
Devonport Royal Dockyard Pension Scheme	**13,774**	13,728
Babcock International Group Defined Contribution Scheme	**11,521**	9,281
	25,295	23,009

The total charge to 'cost of sales' in relation to current service costs was £33,763,000 (2020: £28,615,000). Finance income in relation to net pension interest was £5,141,000 (2020: £4,441,000).

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

	2021	2020
	£000	£000
Devonport Royal Dockyard Pension Scheme	**(221,724)**	(7,056)

The total asset recognised on the statement of financial position in these financial statements was:

	2021	2020
	£000	£000
Devonport Royal Dockyard Pension Scheme	**12,931**	199,561

26 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme

The IAS 19 valuation has been updated at 31 March 2021 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2020. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2021 %**	2020 %
Rate of increase in salaries	**2.9**	2.0
Rate of increase in pension payment	**2.7**	2.0
Discount rate	**2.0**	2.4
Inflation	**2.7**	1.8

The expected total employer contributions to be made by participating employers to the scheme in 2021/22 are £38.8m. The future service rate is 21.6%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £38.8m is £18.6m of deficit recovery payments.

The mortality assumptions used were:

	2021 Years	2020 Years
Life expectancy from age 65 (Male aged 65)	**20.7**	20.7
Life expectancy from age 65 (Male aged 45)	**21.8**	21.8

The Group's cash contribution rates payable to the scheme in 2021/22 are expected to be as follows:

Future service contribution rate	**21.6%**
Future service cash contributions	**£12.9m**
Deficit contributions	**£18.6m**
Additional longevity swap payments	**£7.3m**
Expected employer cash costs for 2021/22	**£38.8m**
Expected salary sacrifice contributions	**£6.5m**
Expected total employer contributions	**£45.3m**

26 Pension commitments *(continued)*

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

The changes to the Company balance sheet at March 2021 and the changes to the Company income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2021 £000	**Income statement 2022 £000**
Initial assumptions	1,899,526	22,069
Discount rate assumptions increased by 0.5%	1,748,894	16,095
Discount rate assumptions decreased by 0.5%	2,050,158	26,506
Inflation rate assumptions increased by 0.5%	2,034,202	25,894
Inflation rate assumptions decreased by 0.5%	1,781,375	18,539
Total life expectancy increased by half a year	1,938,846	23,099
Total life expectancy decreased by half a year	1,860,206	21,039
Salary increase assumptions increased by 0.5%	1,931,058	23,163
Salary increase assumptions decreased by 0.5%	1,867,994	20,975

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

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2021 were:

Fair value of plan of assets	**2021 £000**	2020 £000
Equities	**33,019**	10,040
Property	**217,818**	209,693
High yield bonds/emerging market debt	**141,317**	-
Absolute return and multi strategy funds	**233,546**	205,461
Bonds	**597,970**	582,296
Matching assets	**779,997**	884,818
Active position on longevity swaps	**(91,210)**	(83,690)
Total assets	**1,912,457**	1,808,618
Present market value of liabilities – funded	**(1,899,526)**	(1,609,057)
Gross pension surplus	**12,931**	199,561

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. Investments have been valued for this purpose at fair value at the balance sheet date. Equity investments and bonds are valued at bid price.

Notes to the financial statements *(continued)*

26 Pension commitments *(continued)*

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

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

Analysis of amount charged to the income statement	**2021**	2020
	£000	£000
Current service cost	**16,404**	17,312
Past service cost	**190**	-
Incurred expenses	**2,321**	857
Total included within operating profit	**18,915**	18,169
Net interest income	**(5,141)**	(4,441)
Total charged to the income statement	**13,774**	13,728

Analysis of amount included in statement of comprehensive income ("SOCI")	**2021**	2020
	£000	£000
Actuarial (losses)/gains recognised in the SOCI	**(323,467)**	57,581
Experience gains/(losses)	**107,254**	(52,518)
Other (losses)	**(5,511)**	(12,119)
	(221,724)	(7,056)

Reconciliation of present value of scheme assets, including reimbursement rights	**2021**	2020
	£000	£000
At 1 April	**1,808,618**	1,863,379
Interest on assets	**44,843**	45,956
Actuarial gain/(loss)	**111,215**	(39,882)
Actuarial (loss) on reimbursement rights	**(7,520)**	(13,796)
Benefits paid	**(93,623)**	(95,707)
Contributions paid by employer	**48,868**	48,595
Settlement	**-**	-
Employee contributions	**56**	73
At 31 March	**1,912,457**	1,808,618

26 Pension commitments *(continued)*

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

Reconciliation of present value of scheme liabilities	2021 £000	2020 £000
At 1 April	**1,609,057**	1,691,629
Current service cost	**16,404**	17,312
Incurred expenses	**2,321**	857
Interest cost	**37,693**	39,838
Employee contributions	**56**	73
Benefits paid	**(93,623)**	(95,707)
Experience	**3,961**	12,636
Past service cost	**190**	-
Settlement	**-**	-
Actuarial loss/(gain)	**323,467**	(57,581)
At 31 March	**1,899,526**	1,609,057

b) Babcock International Group Defined Contribution Scheme

The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £11,521,006 (2020: £9,280,893). The amount included in creditors at the year end in respect of this scheme was £59,005 (2020: £70,412).

27 Contingent liabilities

At 31 March 2021 the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2020: £307.2 million) provided to certain Group companies. In addition, the Company at the 31 March 2021 had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2020: £nil).

28 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