Devonport Royal Dockyard Limited

Annual report and financial statements

For the year ended 31 March 2022

Company registration number:

02077752

Devonport Royal Dockyard Limited

COMPANY INFORMATION

Current Directors
S C Bowen
R Foran
N M Fox
J R Gane
D J Kieran
A D H Mathews
G Simpson
A Spurr
P Watson

Company Secretary
P Fel

Registered Number
02077752

Registered Office
Devonport Royal Dockyard
Devonport
Plymouth
PL1 4SG

Independent Auditors
Deloitte LLP
1 New Street Square
London
EC4A 4HQ

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Strategic report for the year ended 31 March 2022

The directors present their strategic report on the Company for the year ended 31 March 2022.

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.

Business review

	2022	2021
	£000	£000
		Restated*
Revenue	**903,754**	814,230
Profit for the financial year	**21,232**	58,508

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The MOD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010 and which continues to operate successfully. ToBA was revised in 2021 for updates for the Future Maritime Support Programme ("FMSP").

During the year the operative contract for the ToBA framework which was the Maritime Support Delivery Framework ("MSDF") was replaced by the FMSP which provides continuity of activities for a further 5 year period with 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 Company continues to participate in a wide range of initiatives that are intended to deliver key elements of the MOD's maritime support and 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 provision of fleet time maintenance to the nuclear-powered submarine flotilla based at Devonport continued during the year with the fifth refuelling of a Trident Class submarine, in parallel with the Deep Maintenance Period (Refuel) and life extension on a Vanguard Class submarine. The reduction in Company profit from the prior financial year mainly reflects a loss reported against this contract due to extension of the in dock period and emerging defect rectification beyond baseline scope.

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.

Review of the business *(continued)*

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 continued under FMSP, spanning from the MSDF contract. 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.

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

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. Improved safety culture, reporting of incidents and near misses, and baseline site safety standards are being rolled out across the site in addition to ensuring compliance with relevant standards for operations undertaken. A programme of visible leadership is being led by the Board, Executive and management at all levels. Zero harm and zero waste to land fill are key objectives.

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 to ensure minimal disruption to the programmes being undertaken.

The financial position of the Company has strengthened during the year ended 31 March 2022 with net assets increasing £62m or 15.3% on the 2021 closing position. The main driver for the improvement is a £85m increase in the gross pension surplus, in accordance with IAS 19, on the Devonport Royal Dockyard Pension Scheme (note 25). Deferred tax liability did increase by £20m, £17.5m of which related to the pension increase. Capital expenditure has increased by £33m reflecting the Company’s commitment to investing in its infrastructure. The Company has worked with its customers to reduce the amounts receivable on contract by £19m and intercompany trade receivables has reduced by £11m due to an improved intercompany settlement process.

Principal risks and uncertainties

The Company’s ultimate controlling parent is Babcock International Group PLC. Risks are managed at group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2022, which does not form part of this report.

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

Principal risks and uncertainties *(continued)*

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

The directors manage this risk by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and nuclear licensed site obligations. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 76 to 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The growth and performance of Marine and Nuclear, two of the divisions of Babcock International Group PLC, of which parts of both divisions are included in the Company, is discussed on pages 42 to 45 of the annual report of Babcock International Group PLC, which does not form part of this report. We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2022	2021	
Revenue Growth	**11.0%**	2.9%	Increase in revenue when compared to that of the previous year.
Operating Return on Revenue (ORR)	**2.3%**	7.2%	Operating profit expressed as a percentage of revenue.
Order Book	**£2,914m**	£2,794m	Includes total value of signed contracts and prudent estimate of value of framework contracts, based on ongoing assessment of expected contract values.
Total injuries rate per 100,000 hours worked	**1.16**	1.41	Health and Safety is a core value for the Company. The data includes all reported injuries.

S172(1) statement and stakeholder engagement

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

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53 and 101 of the annual report of Babcock International Group PLC, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

What matters to them

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

How the Company engages

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

Investors

Why they matter to us

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

Investors *(continued)*

What matters to them

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

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

Suppliers

Why they matter to us

To support our business operations and strategy, we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and, by working collaboratively with suppliers, we can ensure continuity of supply, minimise risk and bring innovative solutions to our customer. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International Group PLC which does not form part of this report.

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

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

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

Regulators

Why they matter to us

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

What matters to them

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

How the Company engages

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

Employees

Why they matter to us

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Group-wide People Strategy as described on pages 19 and 63 - 66 of the annual report of Babcock International Group PLC which does not form part of this report.

What matters to them

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

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

Employees *(continued)*

How the Company engages

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

Communities

Why they matter to us

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities and helping them rebuild following COVID 19. We have a responsibility to ensure that we support the communities in which we operate, both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. The Company's major sites of operation make it one of the largest employers in the local areas and it remains important for us to add value to these communities.

What matters to them

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

How the Company engages

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

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

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

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

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

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

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

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

These activities form part of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International Group PLC, which does not form part of this report.

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040.

This report was approved by the board on 16 August 2023 and signed on its behalf

P Watson
Director
16 August 2023

Directors' report for the year ended 31 March 2022

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2022.

Dividends

An interim dividend of £nil (2021: £30,000,000) representing nil pence (2021: 560.75 pence) per ordinary share was declared and paid in the year. No final dividend for the year ended 31 March 2022 is proposed by the directors (2021: £nil).

Directors

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

S C Bowen	
R Foran	
P Foster	(resigned on 18 January 2022)
N M Fox	
J R Gane	(appointed on 7 March 2022)
M S Homer	(resigned on 18 August 2021)
D J Kieran	(appointed on 15 September 2021)
A D H Mathews	
G Simpson	(appointed on 14 March 2022)
A Spurr	
P Watson	(appointed on 7 March 2022)

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

Future developments

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

The Company continues its active engagement in a number of pan-industry alliances with the MOD that will determine long term arrangements for delivering and supporting current and future classes of surface warships and submarines, including design and assessment work on the planned successor deterrent 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.

Going concern

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

Going concern *(continued)*

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £325.9m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

Corporate governance statements

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.

Purpose and Principles

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

Our Purpose and Principles were formally launched this year to support the major cultural shift the business is making. They were developed with the help of our people and are designed to unite us as a Company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock. See more about our approach to Inclusion and Diversity on page 64 of the annual report for Babcock International Group PLC, which does not form part of this report.

Board and Directors' responsibilities

The Directors' responsibilities statement is included on page 16.

Risk

We have a risk management framework and internal control environment to manage the risks that may undermine our ability to execute our strategy or more generally our business model. As part of the Group-wide turnaround plan, we have reviewed and improved the risk management framework so that it aligns with our new operating model. As a result, the framework is now standardised across the Group and consistent, with clear risk ownership. In order to assist the Board and the Directors in understanding of principal risks, we have increased the granularity and quantification of each risk. In early FY23, we have launched an updated Risk Management policy, which will enhance the guidance and requirements around our risk assessment and reporting process.

Corporate governance statements *(continued)*

Processes will be subject to ongoing continuous improvement. These activities form part of the Risk Management Strategy as described on pages 76 - 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

Remuneration

The Babcock International Group PLC Remuneration Committee is responsible for reviewing the remuneration of employees of the Company, as well as alignment of incentives and rewards with culture, and take these into account when setting the policy for executive remuneration. These activities form part of the Remuneration Strategy as described on pages 113 – 115 of the annual report of Babcock International Group PLC, which does not form part of this report.

Business relationships

The Company's approach to business relationships is detailed in the S172 statement on pages 5 - 10.

Financial risk management

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

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

Directors' report for the year ended 31 March 2022 *(continued)*

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2022 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

Engagement with suppliers and customers

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

Employees

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation. We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 64 and 107 of the annual report for Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 9 of the Strategic Report.

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.

Qualifying third party indemnity provisions

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

Post balance sheet events

On 1 April 2023, the trade and assets of Babcock Marine (Clyde) Limited, a fellow subsidiary within the Babcock group, transferred to Devonport Royal Dockyard Limited (DRDL). The operations and contracts of His Majesty's Naval Base Clyde will continue under DRDL (see note 27).

Directors’ report for the year ended 31 March 2022 *(continued)*

Statement of disclosure of information to independent auditors

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

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

Appointment of auditors

At the 2022 Annual General meeting of Babcock International Group PLC, the Company’s ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 16 August 2023 and signed on its behalf

P Watson
Director
16 August 2023

Statement of directors' responsibilities in respect of the financial statements

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

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

In preparing 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 28.

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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.

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

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

OTHER INFORMATION

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:
- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax and pensions legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in respect of these matters.

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

USE OF OUR REPORT

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

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
16 August 2023

Income statement for the year ended 31 March 2022

	Note	**2022**	2021
		£000	£000
			Restated
Revenue	4	**903,754**	814,230
Cost of revenue		**(881,249)**	(768,558)
Gross profit		**22,505**	45,672
Other income		**-**	13,168
Operating profit	5	**22,505**	58,840
Finance income	6	**1,814**	5,889
Finance costs	6	**(542)**	(591)
Profit before taxation		**23,777**	64,138
Income tax expense	10	**(2,545)**	(5,630)
Profit for the financial year		**21,232**	58,508

The notes on pages 27 to 63 form part of these financial statements.

All of the above results derive from continuing operations.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Statement of comprehensive income for the year ended 31 March 2022

	Note	**2022**	2021 Restated
		£000	£000
Profit for the financial year		**21,232**	58,508
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges		**(67)**	(178)
Items that will not be subsequently reclassified to income statement:			
Gain/(loss) on measurement of net defined benefit obligation	25	**58,539**	(191,380)
Tax on net defined benefit obligation and other timing differences	10	**(17,331)**	36,396
Total comprehensive income/(expense) for the year		**62,373**	(96,654)

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Statement of financial position as at 31 March 2022

	Note	**2022** **£000**	2021 £000 Restated
Non-current assets			
Intangible assets	11	**4,115**	2,502
Property, plant and equipment	12	**192,324**	159,739
Right-of-use assets	13	**9,000**	9,192
Investments	14	**2,052**	1,015
Other receivables due after one year	16	**522,021**	543,808
Retirement benefits surpluses	25	**103,667**	18,587
		833,179	734,843
Current assets			
Inventories	15	**13,504**	7,957
Trade and other receivables	16	**105,825**	117,001
Other financial assets	20	**930**	-
Cash and cash equivalents		**143,331**	117,723
		263,590	242,681
Current liabilities			
Trade and other payables	17	**(581,743)**	(547,203)
Lease liabilities	13	**(1,833)**	(1,870)
Other financial liabilities	20	**(28)**	(124)
Provisions	19	**(5,891)**	(3,733)
Net current liabilities		**(325,905)**	(310,249)
Total assets less current liabilities		**507,274**	424,594
Non-current liabilities			
Trade and other payables	17	**(425)**	(547)
Lease liabilities	13	**(8,676)**	(8,111)
Deferred tax liability	10	**(29,858)**	(9,983)
Provisions	19	**-**	(14)
Net assets		**468,315**	405,939
Equity			
Called up share capital	21	**5,350**	5,350
Share premium account		**32,700**	32,700
Hedging reserve		**(191)**	(124)
Retained earnings		**430,456**	368,013
Total shareholders' funds		**468,315**	405,939

The notes on pages 27 to 63 are an integral part of these financial statements.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The financial statements on pages 22 to 63 were approved by the board of directors on 16 August 2023 and signed on its behalf by:

P Watson
Director
16 August 2023

Statement of changes in equity as at 31 March 2022

	Note	Called up share capital £000	Share premium £000	Hedging reserve £000	Retained earnings £000	Total Shareholders' funds £000
Balances at 1 April 2020 (previously stated)		**5,350**	**32,700**	**54**	**516,898**	**555,002**
Prior year restatements		**-**	**-**	**-**	**(22,408)**	**(22,408)**
Balance at 1 April 2020 restated		**5,350**	**32,700**	**54**	**494,490**	**532,594**
Profit for the financial year		**-**	**-**	**-**	**58,508**	**58,508**
Other comprehensive loss - Restated		**-**	**-**	**(178)**	**(154,985)**	**(155,163)**
Dividends paid	22	**-**	**-**	**-**	**(30,000)**	**(30,000)**
Balance at 31 March 2021 restated		**5,350**	**32,700**	**(124)**	**368,013**	**405,939**
Profit for the financial year		**-**	**-**	**-**	**21,232**	**21,232**
Other comprehensive gain		**-**	**-**	**(67)**	**41,211**	**41,144**
Dividends paid	22	**-**	**-**	**-**	**-**	**-**
Balance at 31 March 2022		**5,350**	**32,700**	**(191)**	**430,456**	**468,315**

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements

1 General information

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

2 Accounting policies

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

Basis of preparation

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
c) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
d) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases
e) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
f) Paragraphs 10(d), 10(f), 16, 38(A-D), 40(A-D), 111 and 134 to 136 of IAS 1 Presentation of financial statements
g) IAS 7, 'Statement of cash flows'
h) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
i) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
j) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

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

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

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a software-as-a-service arrangement. As a result of this decision the Company has revised its accounting policy and will not capitalise costs associated with software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with software-as-a-Service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to software-as-a-service arrangements have been reviewed. This has not had a material impact on the financial statements. The Company will continue to apply this accounting policy to new software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Company's cash flows.

- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Going concern

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Going concern *(continued)*

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £325.9m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

Revenue

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

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. 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 observable and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin.

(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.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Revenue recognised over time

Performance obligations are satisfied over time if any of the following criteria are satisfied:

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

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services.

Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

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

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (e) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Assessment of contract profitability

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

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

(d) Costs of obtaining a contract

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

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

(e) Contract assets and liabilities

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

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

2 Summary of significant accounting policies *(continued)*

Intangible assets

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

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

Property, plant and equipment

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

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

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

Investments

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

Leases

The Company as lessee

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Leases *(continued)*

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

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

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

The Company as lessor

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

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

Inventory

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur, or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 26 for details of contingent liabilities.

Cash and cash equivalents

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

Taxation

a) Current income tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

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

b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

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

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

Trade and other receivables

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

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

Finance costs

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

Finance income

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Employee benefits

a) Pension obligations

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

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

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

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

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

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

b) Share based compensation

The Company 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.

c) Holiday pay

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Financial instruments

a) Financial assets and liabilities at amortised cost

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

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

b) Derivative financial instruments

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

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

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

Dividends

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

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2020 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2020.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

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

3 Critical accounting estimates and judgements

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

Critical accounting judgements

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

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Revenue and profit recognition

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

Revenue and profit recognition

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

Defined benefit pension scheme

The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 25.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Inflation

The level to which the Company's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Company's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.

4 Revenue

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

	2022 £000	2021 £000
By area of activity:		
Sales of goods – transferred at a point in time	**17,314**	23,058
Provision of services – transferred over time	**886,440**	791,172
	903,754	814,230

All revenue relates to sales in the United Kingdom.

5 Operating profit

Operating profit is stated after charging/(crediting):	**2022 £000**	2021 £000
Depreciation of property, plant and equipment (note 12)	**24,891**	20,668
Amortisation of intangible assets (note 11)	**1,303**	2,109
Right of use depreciation (note 13)	**2,482**	2,239
Operating lease charges		
- Short term leases	**11**	11
Research and development	**12,461**	11,179
Foreign exchange loss	**9**	17
Audit fees payable to the Company's auditors	**699**	282
Intellectual property royalty charge	**13,465**	12,214

The auditors' remuneration for the current (£699,000) and prior year (£282,000) has been borne by a fellow group company. Fees paid to the company's auditors, Deloitte LLP and its associates (2022), PricewaterhouseCoopers LLP and its associates (2021), are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

Notes to the financial statements *(continued)*

6 Finance income and costs

	2022 £000	2021 £000 Restated
Finance income:		
Bank interest	**-**	15
Retirement benefit interest (note 25)	**624**	4,563
Fair value movement on derivatives	**1,121**	-
Capitalised interest	**69**	1,311
	1,814	5,889
Finance costs:		
Bank interest	**(2)**	(74)
Fair value movement on derivatives	**(28)**	-
Lease interest	**(512)**	(517)
	(542)	(591)

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

7 Staff costs

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

	2022 Number	2021 Number Restated
By activity:		
Operations	**7,039**	6,415
Management and administration	**9**	11
	7,048	6,426

Their aggregate remuneration comprised:

	2022 £000	2021 £000 Restated
Wages and salaries	**311,972**	276,875
Social security costs	**30,792**	27,100
Pension costs – defined contribution plans (note 25)	**13,705**	11,521
Pension costs – defined benefit plans (note 25)	**22,340**	18,915
Share based payments (note 9)	**989**	341
	379,798	334,752

During the year, the average number of employees recharged to other Babcock entities was 22 (2021: 19). The total cost recharged included in the above was £1,315,192 (2021: £1,234,526).

The prior year has been restated mainly due to the inclusion of costs of £1,234,526 for employees recharged to other Group companies, and the exclusion of all pay cost manual adjustments. The effect of this is an increase in remuneration of £5,783,000 and an increase in employee numbers of 19.

Notes to the financial statements *(continued)*

8 Directors' emoluments

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

	2022	2021
	£000	£000
Emoluments (including benefits in-kind)	**889**	799

During the year no (2021: one) directors remunerated by Devonport Royal Dockyard Limited exercised share options under long term incentive plans and no (2021: three) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to two directors (2021: two) under the Group pension scheme and the executive pension scheme, both of which are defined benefit schemes. The defined benefit schemes were amalgamated together on 1 January 2002, as reported in the pension financial statements for the year ended 31 March 2002.

No retirement benefits are accruing under the Group defined contribution scheme (2021: 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 (2021: £nil).

Eleven directors held office at some point during the year and up to date of signing the annual report. Except for seven (2021: three) 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:

	2022	2021
	£000	£000
Emoluments (including benefits in-kind but excluding pension contributions)	**382**	522
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 not exercise shares under long term incentive plans (2021: the highest paid director did exercise shares under long term incentive plans).

Notes to the financial statements *(continued)*

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 £0.9 million (2021: £0.3 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £0.74 million (2021: £0.28 million).

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

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

	Options awarded Number	Share price at grant or modification date Pence	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
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,84	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,24	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,47	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	1,370,67	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,03	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	1,699,32	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	1,769,33	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

Both the vesting period and the expected life of all DBMP and PSP 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.

Notes to the financial statements *(continued)*

9 Share based payments *(continued*

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance. PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

10 Tax

Income tax expense

	2022 £000	2021 £000 Restated
Current tax:		
UK current year expense/(benefit)	**-**	-
UK prior year benefit	**-**	(137)
Current tax charge for the year	**-**	(137)
Deferred tax:		
UK current year expense	**789**	6,629
Impact of change in UK tax rate	**957**	-
UK prior year expense/(benefit)	**799**	(862)
Total income tax expense	**2,545**	5,630

10 Tax *(continued)*

Income tax expense *(continued)*

The tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2022 **£000**	2021 £000 Restated
Profit before tax	**23,777**	64,138
Profit before taxation multiplied by standard UK corporation tax rate of 19% (2021: 19%)	**4,518**	12,186
Effects of:		
Group relief claimed	**(4,279)**	(6,100)
Expenses not deductible for tax purposes	**550**	543
Overseas tax	**-**	8
Double tax relief	**-**	(8)
Adjustments in respect of prior periods	**-**	(137)
Deferred tax - change in UK rate of tax	**957**	-
Deferred tax - adjustment in respect of prior periods	**799**	(862)
Total tax charge for the year	**2,545**	5,630

In 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2022 that are expected to reverse after 1 April 2023 have been calculated at 25%.

Deferred tax

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

	31 March 2022 £000	31 March 2021 £000
Deferred tax asset	**-**	-
Deferred tax liability	**(29,858)**	(9,983)
	(29,858)	(9,983)

Notes to the financial statements *(continued)*

10 Tax *(continued)*

Deferred tax *(continued)*

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

	Tangible assets £000	Retirement benefit obligations £000	Tax losses £000	Other £000	Total £000
At 1 April 2021	(1,796)	(8,222)	-	35	(9,983)
Income statement (debit)/credit	(2,193)	(353)	-	2	(2,544)
Tax (debit)/credit to other comprehensive income/equity	-	(17,342)	-	11	(17,331)
At 31 March 2022	(3,989)	(25,917)	-	48	(29,858)
At 1 April 2020	(2,698)	(37,917)	-	3	(40,612)
Income statement (debit)/credit	902	(6,668)	-	(2)	(5,768)
Tax credit/(debit) to other comprehensive income/equity	-	42,128	-	34	42,162
At 31 March 2021 as previously stated	(1,796)	(2,457)	-	35	(4,218)
Prior year restatement (note 18)	-	(5,765)	-	-	(5,765)
At 31 March 2021 (restated)	(1,796)	(8,222)	-	35	(9,983)

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.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

11 Intangible assets

	Intangible Software (IS) £000	Assets Under Construction (AUC) £000	Intangible Total £000
Cost			
At 1 April 2021 restated*	60,078	787	60,865
Additions	33	1,687	1,719
Transfer from AUC	38	(38)	-
Reclassification AUC	-	865	865
Reclassification IS to PE	(3,205)	(314)	(3,519)
Disposals	(265)	-	(265)
At 31 March 2022	**56,679**	**2,986**	**59,665**
Accumulated amortisation and impairment			
At 1 April 2021	(58,363)	-	(58,363)
Amortisation	(1,303)	-	(1,303)
Reclassification	4,116	-	4,116
At 31 March 2022	**(55,550)**	**-**	**(55,550)**
Net book value at 31 March 2022	**1,129**	**2,986**	**4,115**
Cost			
At 1 April 2020 as previously stated	65,700	-	65,700
Reclassification of assets under construction	(1,098)	1,098	-
At 1 April 2020 restated*	64,602	1,098	65,700
Additions restated*	2,192	725	2,917
Reclassification restated*	1,036	(1,036)	-
Disposals	(7,752)	-	(7,752)
At 31 March 2021 restated*	**60,078**	**787**	**60,865**
Accumulated amortisation and impairment			
At 1 April 2020	(56,254)	-	(56,254)
Amortisation	(2,109)	-	(2,109)
At 31 March 2021	**(58,363)**	**-**	**(58,363)**
Net book value at 31 March 2021 restated*	**1,715**	**787**	**2,502**

* In the year ended 31 March 2022, it was identified that assets under construction were incorrectly classified as intangible software. The reclassification results in an increase in assets under construction and a decrease to intangible software of £1.1m at 1 April 2020. At 31 March 2021, there is an increase to assets under construction and a decrease to intangible software of £0.8m compared to amounts previously stated.

12 Property, plant and equipment

	Freehold Property (LB) £000	Plant and Equipment (PE) £000	Assets Under Construction (AUC) £000	Total £000
Cost				
At 1 April 2021 restated*	115,480	316,428	61,307	493,215
Additions	9	3,731	55,199	58,939
Transfer from AUC	432	8,641	(9,073)	-
Reclassification AUC	-	-	(865)	(865)
Reclassification LB to PE	(94)	94	-	-
Reclassification IS to PE	-	3,519	-	3,519
Disposals	-	-	-	-
At 31 March 2022	**115,827**	**332,413**	**106,569**	**554,808**
Accumulated depreciation				
At 1 April 2021	(81,128)	(252,349)	-	(333,477)
Charge for the year	(2,852)	(22,039)	-	(24,891)
Reclassification	-	(4,116)	-	(4,116)
Disposals	-	-	-	-
At 31 March 2022	**(83,980)**	**(278,504)**	**-**	**(362,484)**
Net book value at 31 March 2022	**31,847**	**53,908**	**106,569**	**192,324**
Cost				
At 1 April 2020 as previously stated	127,726	342,274	-	470,000
Reclass assets under construction	(13,206)	(29,542)	42,748	-
At 1 April 2020 restated*	114,520	312,732	42,748	470,000
Additions restated*	973	10,421	20,020	31,415
Reclassification restated*	-	1,461	(1,461)	-
Disposals	(13)	(8,187)	-	(8,200)
At 31 March 2021 restated*	**115,480**	**316,428**	**61,307**	**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 restated*	**34,353**	**64,079**	**61,307**	**159,739**

* In the year ended 31 March 2022, it was identified that assets under construction were incorrectly classified as freehold property and plant and equipment. The reclassification results in an increase in assets under construction of £42.7m and decreases in freehold property of £13.2m and in plant and equipment of £29.5m at 1 April 2020. At 31 March 2021, there is an increase to assets under construction of £61.3m and decreases to freehold property of £18.2m and to plant and equipment of £43.1m compared to previously stated amounts.

Notes to the financial statements *(continued)*

13 Leases

Right of use assets	**Property**	**Plant and equipment**	**Total**
	£000	**£000**	**£000**
Cost			
At 1 April 2021	12,052	4,436	16,488
Adjustment to prior year balance	(34)	-	(34)
Additions	2,250	311	2,561
Terminations	(170)	(648)	(818)
At 31 March 2022	**14,098**	**4,099**	**18,197**
Accumulated depreciation			
At 1 April 2021	(5,566)	(1,730)	(7,296)
Adjustment to prior year balance	34	-	34
Charge for the year	(1,712)	(770)	(2,482)
Terminations	77	470	547
At 31 March 2022	**(7,167)**	**(2,030)**	**(9,197)**
Net book value			
At 31 March 2022	**6,931**	**2,069**	**9,000**
At 31 March 2021	6,486	2,706	9,192

Lease liabilities

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

	2022	2021
	£000	£000
At 1 April 2021	**9,981**	11,730
Additions	**2,561**	407
Disposals	**(44)**	-
Interest charged	**512**	518
Payments	**(2,501)**	(2,674)
At 31 March 2022	**10,509**	9,981

Notes to the financial statements *(continued)*

13 Leases *(continued)*

Discounted future minimum lease payments are as follows:

	2022 £000	2021 £000
Within one year	**1,833**	1,870
In more than one year, but not more than five years	**5,246**	4,614
After five years	**3,430**	3,497
Carrying value of liability	**10,509**	9,981

The Company had total cash outflows for leases of £2,501,000 for the year ended 31 March 2022 (2021: £2,673,526).

The following are the amounts recognised in profit or loss:

	2022 £000	2021 £000
Expense relating to short-term leases	**9**	9
Expense relating to leases of low-value assets	**2**	2
	11	11

14 Investments

	2022			2021		
	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	**-**	**2,052**	**2,052**	-	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.

15 Inventories

	2022 £000	2021 £000
Raw materials	**13,504**	7,957

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

Notes to the financial statements *(continued)*

15 Inventories *(continued)*

The cost of inventory recognised as an expense and included in 'cost of revenue' amounted to £52,560,296 (2021: £56,023,081).

16 Trade and other receivables

	2022	2021
	£000	£000
		Restated
Amounts due after more than one year:		
Amounts due from group undertakings	**522,021**	543,808
	522,021	543,808

Amounts due from group undertakings comprise the following:

- Ten loans totalling £424,804,000 (2021: ten loans totalling £439,838,000) are repayable on demand, with no interest charge.
- All other amounts due from group undertakings are unsecured and repayable on demand.

	2022	2021
	£000	£000
		Restated
Amounts falling due within one year:		
Trade receivables	**18,943**	6,795
Amounts recoverable on contracts	**27,543**	56,149
Other receivables	**4,681**	11,240
Amounts due from group undertakings	**33,939**	14,523
Intercompany trade receivables	**14,940**	25,981
Prepayments	**5,779**	2,313
	105,825	117,001

Trade receivables are stated after provisions for impairment of £nil (2021: £nil).

Current intercompany receivables are expected to be settled in the Company's usual operating cycle of 12 months or less.

Amounts due from group undertakings falling due within one year were settled during the year ended 31 March 2023 (2021: settled during year end 31 March 2022).

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

17 Trade and other payables

	2022 £000	2021 £000 Restated
Amounts falling due within one year:		
Trade payables	**35,766**	79,707
Advance payments	**56,967**	37,209
Amounts owed to parent and group undertakings	**359,060**	357,296
Taxation and social security	**9,882**	9,144
Accruals	**120,068**	63,847
	581,743	547,203

Accruals comprise project, sundry, overhead, inventory and purchase order accruals. The £56m increase on FY21 was largely due to contract growth on the Major Infrastructure project and Equipment Solutions projects. Capital expenditure project accruals also increased as value of progress to date was recognised.

Amounts falling due after more than one year:

	2022 £000	2021 £000
Deferred income	**425**	547
	425	547

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.

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.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

18 Prior year restatements

In the year ended 31 March 2022, the Company restated the prior year financial information. The restatements are summarised below:

Impact on the income statement for the year ended 31 March 2021

	Year ended 31 March 2021 (previously published)	(i) DRDL DB Pension Scheme change due to inflation	(v) Accrual Adjustment	Year ended 31 March 2021 (restated)
Income statement				
Revenue	814,230	-	-	814,230
Cost of revenue	(769,565)	-	1,007	(768,558)
Other income	13,168	-	-	13,168
Finance income	6,467	(578)	-	5,889
Finance costs	(591)	-	-	(591)
Profit before tax	63,709	(578)	1,007	64,138
Income tax expense	(5,630)	-	_-	(5,630)
Profit for the period	58,079	(578)	1,007	58,508

Year ended 31 March 2021 – Statement of other comprehensive income (extract)

The table below shows the impact of the prior year restatements on the statement of other comprehensive income.

	Year ended 31 March 2021 (previously published)	(i) DRDL DB Pension Scheme change due to longevity swaps	(ii) DRDL DB Pension Scheme change due to inflation	Year ended 31 March 2021 (restated)
Other comprehensive income/(loss)				
Remeasurement of retirement benefit obligations	(221,724)	7,760	22,584	(191,380)
Tax, including rate change impact, on remeasurement of retirement benefit obligations	42,127	(1,474)	(4,291)	36,362

Statement of changes in equity (extract) – 31 March 2021

	Year ended 31 March 2021 (previously published)	(i) DRDL DB Pension Scheme change due to longevity swaps	(ii) DRDL DB Pension Scheme change due to inflation	Year ended 31 March 2021 (restated)
Retained earnings				
Profit for the financial year	58,079	89	259	58,427
Other comprehensive loss	(179,563)	6,286	18,293	(154,984)

Notes to the financial statements *(continued)*

18 Prior year restatements *(continued)*

31 March 2021 – Statement of financial position (extract)

	31 March 2021 (previously published)	(i) DRDL DB Pension Scheme change due to longevity swaps	(ii) DRDL DB Pension Scheme change due to inflation	(iii) Reclassifications	(iv) ASL Adjustments	(v) Corporation Tax Reclass and Adjustment	31 March 2021 (restated)
Assets							
Non-current assets							
Retirement benefit surpluses	12,931	(16,350)	22,006	-	-	-	18,587
Other receivables	-	-	-	520,680	(15,270)	38,398	543,808
Total non-current assets*	185,379	(16,350)	22,006	520,680	(15,270)	38,398	734,843
Current (liabilities)/assets							
Trade and other receivables	591,824	-	-	(474,823)	-	-	117,001
UK corporation tax receivable	38,398	-	-	-	-	(38,398)	-
Cash	118,341	-	-	-	(618)	-	117,723
UK corporation tax payable	(107,063)	-	-	-	-	107,063	-
Provisions	-	-	-	(3,733)	-	-	(3,733)
Trade and other payables	(412,879)	-	-	(45,857)	15,888	(104,355)	(547,203)
Total net current liabilities*	234,584	-	-	(524,413)	15,270	(35,690)	(310,249)
Liabilities							
Non-current liabilities							
Deferred tax liability	(4,218)	(1,474)	(4,291)	-	-	-	(9,983)
Provisions	(3,747)	-	-	3,733	-	-	(14)
Total non-current liabilities*	(16,623)	(1,474)	(4,291)	3,733	-	-	(18,655)
Equity							
Retained earnings	365,414	(17,824)	17,715	-	-	2,708	368,013
Total equity*	403,340	(17,824)	17,715	-	-	2,708	405,939

* The table above includes only those financial statement line items which have been restated. The total non-current assets, net current liabilities, non-current liabilities and equity do not therefore represent the sum of the lines presented above.

Notes to the financial statements *(continued)*

18 Prior year restatements *(continued)*

DRDL DB Pension Scheme Restatement

(i) Longevity swap valuation

The longevity swap relating to the scheme was previously valued in line with the collateral posted by the scheme with its intermediary. This was deemed a proxy for fair value in line with IAS 19. Having considered valuations of a notional replacement swap, or exit, we now believe the previous approach no longer accurately reflects fair value and so we have changed our valuation approach accordingly. In the year ended 31 March 2021, there was a reduction in retirement benefit surplus on the Statement of financial position of £16.4m, and a gain through the statement of other comprehensive income due to the restatement of retirement benefit obligations of £7.8m. This change does not affect the technical provision assessed for the scheme during triennial valuations, their funder requirements, or the deficit recovery cash contributions agreed with the scheme.

(ii) Change due to inflation

Furthermore, a change due to inflation, and a refinement in the calculation of the value of defined benefit obligation for the scheme now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases, as reflected in the prior year. This approach was not followed in the year ended 31 March 2021. Correction of this error results in an increase to the defined benefit surplus to £22.0m and a gain through the statement of other comprehensive income of £22.6m.

(iii) Reclassifications

a. Intercompany loans

In the prior year, intercompany amounts due from group undertakings of £474.8m were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and, since these assets are not expected to be settled within the next twelve months, the classification has been reassessed, and the amounts due from group presented within non-current assets. The balance sheet and applicable note in the comparative period have been restated accordingly.

In addition, amounts owed to parent and group undertakings and amounts due from group undertakings both increased by £45.8m to correct the prior year presentation. The amount relates to intercompany loans with Babcock Support Services (Investment) Ltd. Although the reclassification has amended receivable and payable amounts in the financial statements, the overall net position in the prior year has not changed.

b. Provisions

In the prior year, £3.7m of contract provisions were presented as non-current liabilities as it was uncertain that they would be realised or released in the following year. They subsequently were released within the year so have been reclassified as current liabilities.

Notes to the financial statements *(continued)*

18 Prior year restatements *(continued)*

(iv) Appledore Shipbuilders (2004) Limited (ASL) adjustments
In prior years, ASL balances were erroneously included in the Company's statement of financial position as its own which has resulted in an error. These adjustments relate to the correction of this error. Amounts due from group undertakings have been reduced by £15.2m for loans due to ASL from other group entities. Trade and other payables have been reduced by a total of £15.8m, comprising £15.5m on amounts due to group undertakings for loans due from ASL to other group entities and £0.3m on accruals to eliminate an ASL accrual. Cash at bank has been reduced by £0.6m to remove amounts held in the ASL bank account.

(v) Reclassification of corporation tax receivable and payable and adjustment
In the prior year, corporation tax receivable of £38.4m, relating to research and development expenditure credit (RDEC), and corporation tax payable of £107.1m, were presented as separate line items on the statement of financial position. These amounts have been reclassified to amounts due from and to group undertakings respectively, to reflect that another group company receives and makes payment to HMRC under the Group Payment Arrangement (GPA).

In addition, a £2.7m accrual adjustment, included within trade and other payables in the financial statements for year ended 31 March 2021, has been released.

19 Provisions

The Company had the following provisions during the year:

	Reorganisation £000	**Contract and Warranties £000**	**Total £000**
At 1 April 2021	**-**	**3,747**	**3,747**
Charged to income statement	4,277	1,600	5,877
Unused amounts reversed to income statement	-	(3,733)	(3,733)
At 31 March 2022	**4,277**	**1,614**	**5,891**

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

	31 March 2022 £000	31 March 2021 £000 Restated
Current	5,891	3,733
Non-current	-	14

Contract and warranties provisions relate to a review of the major programmes in Devonport Royal Dockyard Ltd and relate to expected contract losses and excess constructions costs. These are based on the assessment of future costs and are assessed with reference to past experience. The reorganisation provision relates to severance costs following a restructure of the organisation. The provisions were fully used during the year ending 31 March 2023.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

20 Other financial assets and liabilities

Included in derivative financial instruments at fair value:

	2022		2021	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Non-current				
Forward FX contracts – cash flow hedges	**930**	**(28)**	-	(124)
	930	**(28)**	-	(124)
Current				
Forward FX contracts – cash flow hedges	**(249)**	**-**	-	-
	681	**(28)**	-	(124)

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.

21 Share capital

	2022 £000	2021 £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

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.

22 Dividends

Dividends declared and paid were £nil (2021: £30,000,000), this is equivalent to nil pence per share (2021: 560.75 pence). There are no plans for a final dividend.

23 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2022 the Company had capital commitments of £19,564,000 (2021: £25,005,000) for the purchase of tangible and intangible fixed assets.

b) Lease Commitments

At 31 March 2022 the Company had lease commitments of £nil for leases not yet commenced.

Notes to the financial statements *(continued)*

24 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 was employed and paid under the same terms and conditions as other employees performing similar roles in the company.

For the year ended 31 March 2022, the Company had no transactions or balances outstanding with related companies that fall outside the FRS 101 exemption criteria.

25 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 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 prudently 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.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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

	2022	2021
	£000	£000
		Restated
Devonport Royal Dockyard Pension Scheme	**21,716**	14,352
Babcock International Group Defined Contribution Scheme	**13,705**	11,521
	35,421	25,873

The total charge to 'cost of revenue' in relation to current service costs was £36,045,000 (2021: £30,436,000). Finance income in relation to net pension interest was £624,000 (2021 restated: £4,563,000).

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

	2022	2021
	£000	£000
		Restated
Devonport Royal Dockyard Pension Scheme	**58,539**	(191,380)

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

	2022	2021
	£000	£000
		Restated
Devonport Royal Dockyard Pension Scheme	**103,667**	18,587

a) **Devonport Royal Dockyard Pension Scheme**

The IAS 19 valuation has been updated at 31 March 2022 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	**2022**	2021
	%	%
Rate of increase in pensionable salaries	**3.4**	2.9
Rate of increase in pension payment	**3.2**	2.7
Discount rate	**2.7**	2.0
Inflation rate	**3.2**	2.7
Weighted average duration of cash flows (years)	**18**	18
Life expectancy for current pensioners aged 65 (years)	**20.9**	20.7
Life expectancy for future pensions currently aged 45 (years)	**21.6**	21.8

25 Pension commitments *(continued)*

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

The expected total employer contributions to be made by participating employers to the scheme in 2022/23 are £38.0m. 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 £38.0m is £18.6m of deficit recovery payments.

The Group's cash contribution rates payable to the scheme in 2022/23 are expected to be as follows:

Future service contribution rate	**21.6%**
Future service cash contributions	**£12.1m**
Deficit contributions	**£18.6m**
Additional longevity swap payments	**£7.3m**
Expected employer cash costs for 2022/23	**£38.0m**
Expected salary sacrifice contributions	**£6.1m**
Expected total employer contributions	**£44.1m**

The changes to the Company balance sheet at March 2022 and the changes to the Company income statement for the year to March 2023, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2022 £000	**Income statement 2023 £000**
Initial assumptions	1,811,060	15,539
Discount rate assumptions increased by 0.5%	1,670,522	8,760
Discount rate assumptions decreased by 0.5%	1,970,977	21,579
Inflation rate assumptions increased by 0.5%	1,931,314	19,358
Inflation rate assumptions decreased by 0.5%	1,700,223	11,889
Total life expectancy increased by half a year	1,851,990	16,860
Total life expectancy decreased by half a year	1,768,862	14,173
Salary increase assumptions increased by 0.5%	1,830,619	16,214
Salary increase assumptions decreased by 0.5%	1,792,406	14,857

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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

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 2022 were:

Fair value of plan assets	**2022**	2021
	£000	£000
		Restated
Equities	**13,672**	33,019
Property	**179,008**	217,818
High yield bonds/emerging market debt	**-**	141,317
Absolute return and multi strategy funds	**1,525**	233,546
Bonds	**863,812**	597,970
Matching assets	**982,710**	779,997
Active position on longevity swaps	**(126,000)**	(107,560)
Total assets	**1,914,727**	1,896,107
Present market value of liabilities – funded	**(1,811,060)**	(1,877,520)
Gross pension surplus	**103,667**	18,587

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.

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

Analysis of amount charged to the income statement	**2022**	2021
	£000	£000
		Restated
Current service cost	**19,776**	16,404
Past service cost	**-**	190
Incurred expenses	**2,564**	2,321
Total included within operating profit	**22,340**	18,915
Net interest income	**(624)**	(4,563)
Total charged to the income statement	**21,716**	14,352

Analysis of amount included in statement of comprehensive income ("SOCI")	**2022**	2021
	£000	£000
		Restated
Actuarial gains/(losses) recognised in the SOCI	**64,776**	(323,467)
Experience gains	**10,052**	129,260
Other (losses)/gains	**(16,289)**	2,827
	58,539	(191,380)

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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

Reconciliation of present value of scheme assets, including reimbursement rights	**2022 £000**	2021 £000 Restated
At 1 April	**1,896,107**	1,892,308
Interest on assets	**39,627**	44,843
Actuarial gain	**52,702**	111,215
Actuarial (loss) on reimbursement rights	**(18,440)**	(107,560)
Benefits paid	**(103,575)**	(93,623)
Contributions paid by employer	**48,257**	48,868
Settlement	**-**	-
Employee contributions	**49**	56
At 31 March	**1,914,727**	1,896,107

Reconciliation of present value of scheme liabilities	**2022 £000**	2021 £000 Restated
At 1 April	**1,877,520**	1,609,057
Current service cost	**19,776**	16,404
Incurred expenses	**2,564**	2,321
Interest cost	**36,852**	37,693
Employee contributions	**49**	56
Benefits paid	**(103,575)**	(93,623)
Experience	**42,650**	(18,045)
Past service cost	**-**	190
Settlement	**-**	-
Actuarial (gain)/loss	**(64,776)**	323,467
At 31 March	**1,811,060**	1,877,520

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

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 £13,705,218 (2021: £11,521,006). The amount included in creditors at the year-end in respect of this scheme was £50,602 (2021: £59,005).

26 Contingent liabilities

At the year-end date, the Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilisation of £383.6m at 31 March 2022 (31 March 2021: £371.3m).

Notes to the financial statements *(continued)*

27 Post balance sheet events

On 1 April 2023, the trade and assets of Babcock Marine (Clyde) Limited, a fellow subsidiary within the Babcock group, transferred to Devonport Royal Dockyard Limited (DRDL). The operations and contracts of His Majesty's Naval Base Clyde will continue under DRDL.

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