

Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2022

Company registration number:

SC046710

Babcock Critical Services Limited

Directors and advisors

Current directors

A M Phillips
C J L Spicer
L C Atkinson

Company secretary

Babcock Corporate Secretaries Limited

Registered office

103 Waterloo Street
Glasgow
G2 7BW

Independent auditors

Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Babcock Critical Services Limited

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Babcock Critical Services Limited

Strategic report

The directors present their Strategic report on the company for the year ended 31 March 2022.

Principal activities

The company provides support services operations in the Emergency Services sector. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

Review of the business

| | 2022 | 2021 |
|------------------------------|----------------|----------|
| | | Restated |
| | £000 | £000 |
| Revenue | 57,686 | 74,670 |
| Loss before interest and tax | (2,724) | (550) |
| Net assets/(liabilities) | 7 | (6,912) |

There was a reduction in revenue in the year ending March 2022 which is primarily due to a reduction in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme. The loss before interest and tax in the year ending March 2022 increased by £2.2m largely due to the type of vehicles and quantities being purchased.

In the year ended 31 March 2022, the company restated the prior year financial information. Details of the restatement are contained in note 25.

Principal risks and uncertainties

The company's ultimate controlling parent is Babcock International Group Plc. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group Plc. The principal risks and uncertainties of Babcock International Group Plc are discussed in its Annual Report for the year ended 31 March 2022.

The key risks and uncertainties affecting the company are considered to be related to changes in government policy, budget allocations and the changing political and regulatory environment. The directors manage this risk by meeting on a regular basis with government funding bodies and by repositioning the business as required to meet their requirements and those of employers.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 74 to 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

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Strategic report (continued)

Key performance indicators

The company's activities are managed on a divisional basis. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the company, is discussed on pages 46 to 47 of the annual report of Babcock International Group PLC, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability. Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to be satisfied with the level of performance.

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 company business and strategy.

| | | |
|---|---------|---------|
| | 2022 | 2021 |
| Revenue Growth | -22.7% | -7.5% |
| Operating Return on Revenue | -4.7% | -0.7% |
| Order Book | £221.1m | £271.4m |
| Total injuries per 100,000 hours worked | 2.2 | 1.49 |

Revenue Growth

Revenue growth in the year ending March 2022 was negative, this was due to a reduction in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme.

Operating Return on Revenue

This measure reduced year on year this is primarily due to a reduction in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme. The company seeks to explore ways to improve profitability on existing contracts and through growth opportunities.

Order Book

The company has a number of long-term contracts which provide a significant order book giving strong visibility of revenue for a number of years.

Total Injuries

Ensuring employees and subcontractors who visit our sites are kept safe at work is a primary objective for the company, and we seek to create an environment and culture together with safe working practices that ensures the risk of injuries being sustained is minimised.

Babcock Critical Services Limited

Strategic report (continued)

S172(1) Statement and Stakeholder engagement

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

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

The company manages stakeholder engagement 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.

Employees

Employee engagement is a primary focus for the directors of the company. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose.

These engagement activities form part of the company's implementation of the Group-wide People Strategy as described on pages 19 and 63 – 66 of the annual report of Babcock International Group PLC.

Business relationships

The future success of the company is driven the long-term relationships with our customers. The directors are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.

The company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the directors need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the company's implementation of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International Group PLC.

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Strategic report *(continued)*

The community and environment

The directors recognise that 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. The company has done a lot in the past year as part of the Group-wide sustainability programme, ensuring progress towards our Group corporate commitments and deliver our five ESG (Environmental, Social and Corporate Governance) 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 company's implementation of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International Group PLC.

Approved by the Board and signed on its behalf by:

A handwritten signature in black ink that reads "A Phillips". The signature is written in a cursive style and is enclosed within a thin black rectangular border.

A M Phillips

Director

5 December 2023

Babcock Critical Services Limited

Directors' report

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 was paid in the year (2021: £nil). No final dividend for the year ended 31 March 2022 has been 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:

J R Parker (resigned 22 May 2023)
R H Taylor (resigned 1st October 2021)
C J L Spicer (appointed 8 December 2021)
M Hayward (resigned 8 Dec 2021)
A M Phillips (appointed 22 May 2023)
L C Atkinson (appointed 12 July 2023)

The Board is not aware of any contract of significant in relation to the company in which any director has, or has had, a material interest.

Future developments

In early 2023 the company was notified that it had been unsuccessful in its bid to continue delivering services to the Metropolitan Police Service after the conclusion of the current contract term that ends in October 2023. In March 2023, the company was notified that it had been successful in a re-bid to continue providing Security related services at two high profile UK sites for a further 3-years. In September 2023 the company was notified that an existing customer to which it provides resilience services had exercised a 4 year option and so the company will continue to provide services under that contract until the second half of 2028.

The company continues to pursue and develop opportunities within the Fleet Management Sector. New opportunities are expected to come to market as Public Sector Authorities begin to transition existing Fleet's towards future Electric Vehicle (EV) Fleet's. The company is well positioned to support such activity given its experience working with customers on sustainability, while also possessing the Fleet intelligence technological capabilities to provide insight that can add value and reduce lifecycle costs.

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 Directors and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the directors have highlighted as significant to the business.

As the company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The company is in a net current asset position of £9,891,000.

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.

Babcock Critical Services Limited

Directors' report *(continued)*

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 with the annual report for Babcock International Group PLC on page 211.

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.

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.

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.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic report on page 5.

Babcock Critical Services Limited

Directors' report *(continued)*

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.

Engagement with UK employees has been considered on page 4 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 appropriate.

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

Qualifying third party indemnity provisions

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

Post Balance Sheet Events

In early 2023 the company was notified that it had been unsuccessful in its bid to continue delivering services to the Metropolitan Police Service after the conclusion of the current contract term that ends in October 2023. This contract made up approximately half of the company's revenue in the Year ending March 2022.

Statement of disclosure of information to auditors

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

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

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Directors' report *(continued)*

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 4 December 2023 and signed on its behalf by:

A handwritten signature in black ink that reads "A Phillips". The signature is written in a cursive style and is enclosed within a thin black rectangular border.

A M Phillips
Director

5 December 2023

Babcock Critical Services Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

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

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

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

Babcock Critical Services Limited

Independent auditors' report to the directors of Babcock Critical Services Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Babcock Critical Services 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 loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 27.

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

Basis for opinion

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

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

Conclusions relating to going concern

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

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.

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.

Independent auditors' report to the members of Babcock Critical Services Limited

Other Information (continued)

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.

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 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 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 it are described below:

Independent auditors' report to the members of Babcock Critical Services Limited

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

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;
- 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 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.

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.

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.

Babcock Critical Services Limited

Independent auditors' report to the members of Babcock Critical Services Limited


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.

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
5 December 2023

Babcock Critical Services Limited

Income Statement

for the year ended 31 March 2022

| | Note | 2022 £000 | 2021 Restated £000 |
|---|------|-----------------|--------------------------|
| Revenue | 4 | 57,686 | 74,670 |
| Cost of sales | | (55,799) | (66,929) |
| Gross profit | | 1,887 | 7,741 |
| Administrative expenses | | (4,640) | (6,080) |
| Other operating income | 5 | - | 3 |
| Amounts written off investments | 5 | 29 | (2,214) |
| Operating (loss)/profit | 5 | (2,724) | (550) |
| Finance income | 6 | 102 | 323 |
| Finance expenses | 6 | (334) | (522) |
| Other finance income - pensions | 23 | 57 | 237 |
| (Loss)/profit before taxation | | (2,899) | (512) |
| Income tax expense | 9 | (602) | (387) |
| (Loss)/profit for the financial year | | (3,501) | (899) |

All of the above results derive from continuing operations.

Statement of Comprehensive Income

for the year ended 31 March 2022

| | Note | 2022 £000 | 2021 £000 |
|---|------|----------------|--------------|
| (Loss)/profit for the financial year | | (3,501) | (899) |
| Other comprehensive income/(loss): <i>Items that will not be subsequently reclassified to income statement:</i> | | | |
| Gain/(loss) on re-measurement of net defined benefit obligation | 23 | 14,222 | (7,364) |
| Tax on defined benefit obligation | 9 | (3,802) | 1,437 |
| Total other comprehensive income/(loss) | | 10,420 | (5,927) |
| Total comprehensive income/(loss) | | 6,919 | (6,826) |

In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Babcock Critical Services Limited

Statement of Financial Position

as at 31 March 2022

| | Note | 2022 £000 | 2021 Restated £000 |
|---|------|-----------------|--------------------------|
| Non-current assets | | | |
| Intangible assets | 10 | 171 | 372 |
| Tangible fixed assets | 11 | 6,195 | 6,599 |
| Right-of-use assets | 12 | 4,073 | 7,131 |
| Investments | 13 | 16,413 | 16,384 |
| Trade and other receivables – amounts falling due after one year | 15 | 57,137 | 57,137 |
| Pension asset | 23 | 18,333 | 1,523 |
| | | 102,322 | 89,146 |
| Current assets | | | |
| Inventories | 14 | 1,505 | 1,861 |
| Trade and other receivables | 15 | 18,706 | 15,663 |
| Cash and cash equivalents | | - | 5,219 |
| | | 20,211 | 22,743 |
| Current liabilities | | | |
| Trade and other payables | 16 | (109,608) | (109,721) |
| Lease liabilities | 17 | (894) | (1,136) |
| Cash and cash equivalents | | (2,140) | (949) |
| Net current liabilities | | (92,431) | (89,063) |
| Total assets less current liabilities | | 9,891 | 84 |
| Lease liabilities | 17 | (3,491) | (6,566) |
| Deferred tax | 9 | (4,815) | (411) |
| Provisions for liabilities | 18 | (1,578) | (18) |
| Net assets | | 7 | (6,912) |
| Equity | | | |
| Called up share capital | 19 | 19,908 | 19,908 |
| Accumulated losses | | (19,901) | (26,820) |
| Total shareholders' funds | | 7 | (6,912) |

The notes on pages 19 to 54 are an integral part of these financial statements.

In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 25. The presentation of the statement of financial position has been amended to more closely align to the Group statement of financial position.

The financial statements on pages 16 to 54 were approved and authorised for issue by the Board of Directors on 4 December 2023 and signed on its behalf by:



A M Phillips
Director
5 December 2023

Babcock Critical Services Limited

Statement of Changes in Equity

for the year ended 31 March 2022

| | Called-up share capital | Accumulated Losses £000 | Total Shareholders' Funds |
|---|----------------------------|-------------------------------|---------------------------------|
| | £000 | | £000 |
| Balance at 1 April 2020 (previously stated) | 19,908 | (18,546) | 1,362 |
| Prior year adjustment | | (1,448) | (1,448) |
| Balance at 1 April 2020 (restated) | 19,908 | (19,994) | (86) |
| Loss for the financial year | - | (899) | (899) |
| Other comprehensive loss | - | (5,927) | (5,927) |
| Total comprehensive loss for the year (restated) | - | (6,826) | (6,826) |
| Balance at 31 March 2021 | 19,908 | (26,820) | (6,912) |
| Loss for the financial year | - | (3,501) | (3,501) |
| Other comprehensive gain | - | 10,420 | 10,420 |
| Total comprehensive gain for the year | - | 8,252 | 8,252 |
| Balance at 31 March 2022 | 19,908 | (19,901) | 7 |

In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Babcock Critical Services Limited

Notes to the financial statements

1 General information

Babcock Critical Services Limited is a private company limited by shares, which is incorporated and domiciled in Scotland, UK. The address of the registered office is 103 Waterloo Street, Glasgow, G2 7BW.

Its ultimate controlling party is disclosed in note 26. The principal activity of the company is set out in the Strategic report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand

2 Summary of significant accounting policies

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

Basis of preparation

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with applicable law, the Companies Act 2006 and Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards in conformity with the requirements of Companies Act 2006 as applicable to companies under FRS 101.

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

- a) IFRS 7, 'Financial instruments: Disclosures'
- 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) 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)
- d) IAS 7, 'Statement of cash flows'
- e) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- f) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- g) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

- h) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, 'impairment of assets'.

Adoption of new and revised standards

There are no amendments to accounting standards that are effective for the year ended 31 March 2022 that have a material impact on the company's 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.

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

As the company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The company is in a net current asset position of £9,891,000.

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.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue

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

(a) Performance obligations

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

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

The integrated output nature of many of the services provided by the company results in some contracts only having one performance obligation.

(b) Determination of contract price

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

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

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

Babcock Critical Services Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

Revenue (continued)

(b) Determination of contract price (continued)

price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

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

(c) Allocation of contract price to performance obligations

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

(d) Revenue and profit recognition

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

Revenue recognised over time

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

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

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.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Revenue recognised over time *(continued)*

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

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

Revenue recognised at a point in time

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

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

Assessment of contract profitability

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

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

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Assessment of contract profitability *(continued)*

estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

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

(e) Contract modifications

Claims and variations

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

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

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

Accounting for contract modifications

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

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

The company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The company's preferred approach is to approve contract modifications by formal contract amendment.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Accounting for contract modifications *(continued)*

Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

Claims and variations which are not deemed to be contract modifications

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

(f) Costs of obtaining a contract

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

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

(g) Costs to fulfil a contract

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

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

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(g) Costs to fulfil a contract *(continued)*

Costs of recruiting or training staff are expensed as incurred.

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

(h) Contract assets and liabilities

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

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

Intangible assets

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

a) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

b) 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 life.

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 statement of financial position date) at the following annual rates:

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment *(continued)*

| | |
|---------------------|-----------------------------|
| Land | Not depreciated |
| Freehold property | 2% to 8% straight line |
| Leasehold property | Lease term |
| Plant and equipment | 6.6% to 33.3% straight line |

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 provision for impairment in value.

Inventory

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

Financial instruments

a) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors are classified as financial assets held at amortised cost 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 debtors, the company measures the provision at an amount equal to 12-month expected credit losses.

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

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.

Babcock Critical Services Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Taxation (continued)

(a) Current income tax (continued)

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

(b) Deferred income tax

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

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

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

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

Employee benefits

a) Pension obligations

Defined benefit

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.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Employee benefits *(continued)*

a) Pension obligations *(continued)*

Defined benefit *(continued)*

Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

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

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

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

Defined contribution

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

b) Holiday pay

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

Foreign currencies

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

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

Lessee accounting

For all leases in which the company is a lessee (other than those meeting the criteria detailed below), the company recognises 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.

Babcock Critical Services Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Lessee accounting (continued)

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

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

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

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

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

Provisions for liabilities

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

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

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

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

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.

Notes to the financial statements *(continued)*

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 amounts 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 estimates in relation to these financial statements:

Revenue recognition – estimates of outturn revenues and costs

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

Defined benefit pension scheme

The company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. The assumptions reflect historical experience and current trends. See note 23 for the disclosures of the defined benefit pension scheme.

Impairment of investments in subsidiaries

The company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the company to estimate the value in use which is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. See note 13 for the disclosures of the carrying value of investments.

Babcock Critical Services Limited

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Critical accounting judgements in relation to these financial statements:

Revenue recognition – identification of performance obligations

Revenue recognition is initially dependant on identifying the number of specific performance obligations that exist within a contract. Judgement has been exercised in determining whether certain contracts that provide Repair and Maintenance services, as well as associated services to ensure the Customer has Asset Availability, should be treated as separately identifiable promises where each is accounted for as a separate performance obligation; or whether promises are not separately identifiable but rather part of an integrated service whereby this bundle of services represents a single performance obligation. With reference to both the commercial nature and the practical delivery of the contracts certain contracts have been assessed as having a single performance obligation. In such cases, the way in which the contract is structured and operates is such that these services are not provided individually, and additionally the customer has sought one single provider to integrate all of these aspects into the fully managed service that the company provides.

Revenue recognition – agent or principal

Revenue recognition is dependent on whether the company is assessed to be acting as a principal or agent in relation to the delivery of the specific performance obligations. The assessment is based on several factors including whether the company is primarily responsible for fulfilling the promise to provide the specified good or service, whether the company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer, and whether the company has discretion in establishing the price for the specified good or service. Specific consideration has been given to the following contracts which have involved a degree of judgement:

- Contracts where there is a contractual requirement to procure vehicles and equipment on behalf of the customer. In this case the company has been assessed to be acting as principal in the purchase of vehicles and equipment (with the associated revenue and costs treated gross). In such transactions the company has primary responsibility for this activity and hence this supports the treatment as principal. The basis for this conclusion is that the company has responsibility for ensuring that a vehicle or equipment is delivered that meets the specification for the contracted price and the company also bears the risk in the event that vehicles or equipment which have been procured from a Supplier and deemed to meet the required specification but are subsequently found to be defective by the Customer.
- Contracts where there is a contractual requirement to dispose of vehicles and equipment at the end of their lives on behalf of the customer. In this case the company has been assessed to be acting as an agent in the disposal of vehicles and equipment (with the associated revenue and costs treated net). The basis of this assessment is that where such disposals occur the purchasing party will have an understanding of the relationship between the company and the Customer, they understand that it is Customer's vehicle or equipment, and the Customer's decision to sell the vehicle or equipment and whether or not to accept the offer. Where these disposals occur, the company does not offer any warranty, and the company does not make any margin on the performance of this activity with all proceeds returned to the Customer.

Babcock Critical Services Limited

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Revenue recognition – timing of recognition

The timing of revenue recognition is dependent on whether the company transfers control of the good or service over time or at a point in time. Revenue is recognised over time if one of the following criteria is met; the customer simultaneously receives and consumes the benefits provided; the company's performance creates or enhances an asset the customer controls; 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.

Determination of whether revenue should be recognised over time or at a point in time can involve a degree of judgement and for certain performance obligations the company has concluded it is appropriate for revenue to be recognised at a point in time and for others it is appropriate for revenue to be recognised over time.

In addition, where contracts are assessed to contain variable revenue, consideration has been given as to whether this variable revenue should be recognised into a distinct time period or recognised over multiple time periods when applying the series guidance of IFRS 15. This determination involves a degree of judgement over whether the terms of a variable payment relate specifically to the entity's efforts to transfer a distinct good or service within a series. When it is determined that it relates to the transfer of good or service within a series, variable consideration will be allocated to the specific time period it relates to. Typically, where variable revenue relates to a specific event that occurs in a discrete time period (eg key performance indicator deductions), the revenue (or deductions to revenue) is recognised in that specific time period.

Provision of vessels under a financing arrangement

Under one of the company's contracts it provides certain dedicated vessels for use by the customer as well as ensuring the availability of these vessels by undertaking repair and maintenance services. Determination as to whether these vessels should be accounted for as finance or operating leases involves a degree of judgement. The company has concluded that the vessels should be accounted for as finance leases and as such the initial expenditure to purchase the vessels is treated as a financial asset with associated financial income. Consideration received from the customer has been allocated to the financing component of the contract so that the net Financial Asset at the conclusion of the contract is equivalent to the anticipated fair value of the vessels and finance income on the Financial Asset is recognised annually based on the average Financial Asset balance using an interest rate equivalent to a standalone third-party rate at contract inception. The remaining consideration is allocated to the non-lease component of the contract

4 Revenue

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

| | 2022 | 2021 |
|-----------------------|---------------|--------|
| | £000 | £000 |
| By area of activity: | | |
| Rendering of services | 57,686 | 74,670 |
| | 57,686 | 74,670 |

All the revenue in the year ended 31 March 2022 and year ended 31 March 2021 originated in the United Kingdom.

Babcock Critical Services Limited

Notes to the financial statements (continued)

5 Operating loss

Operating profit is stated after (crediting)/charging:

| | 2022 £000 | 2021 Restated £000 |
|---|----------------------------|--------------------------|
| Gain on disposal of property, plant and equipment | - | (3) |
| Depreciation of property, plant and equipment (note 11) | 687 | 624 |
| Right-of-use asset depreciation (note 12) | 1,569 | 1,406 |
| Amortisation of intangible assets (note 10) | 201 | 184 |
| Inventory charged to income statement | 8,373 | 9,240 |

The auditors' remuneration for the current (£74,000) and prior year (£30,000) 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.

In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 26.

Amounts written off investments charged to the Income Statement was as follows:

| | 2022 £000 | 2021 Restated £000 |
|--|----------------------------|--------------------------|
| Adjustment in carrying value of investment in Babcock Vehicle Engineering Limited. | 29 | (2,214) |
| | 29 | (2,214) |

6 Finance income and expenses

| | 2022 £000 | 2021 £000 |
|------------------------------------|----------------------------|--------------|
| Finance income: | | |
| Interest income on financial asset | 75 | 96 |
| Foreign exchange | 18 | 227 |
| Other income | 9 | - |
| | 102 | 323 |
| Finance expenses: | | |
| Bank interest | (15) | (107) |
| Lease interest | (319) | (415) |
| | (334) | (522) |

Babcock Critical Services Limited

Notes to the financial statements (continued)

7 Staff costs

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

| | 2022 | 2021 |
|-------------------------------|---------------|--------|
| | Number | Number |
| By activity: | | |
| Operations | 445 | 475 |
| Management and administration | 50 | 24 |
| | 495 | 499 |

Their aggregate remuneration comprised:

| | 2022 | 2021 |
|-----------------------|---------------|--------|
| | £000 | £000 |
| Wages and salaries | 19,731 | 19,914 |
| Social security costs | 2,134 | 2,046 |
| Other pension costs | 2,460 | 2,264 |
| | 24,325 | 24,224 |

Included in other pension costs are £514,000 (2021: £941,000) in respect of the defined benefit schemes and £1,946,000 (2021: £1,323,000) in respect of the defined contribution scheme.

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

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by the company were as follows:

| | 2022 | 2021 |
|---|-------------|------|
| | £000 | £000 |
| The remuneration of the directors which was paid by the company was as follows: | | |
| Emoluments (including benefits in-kind) | 581 | - |
| Defined contribution pension scheme | 34 | - |
| | 615 | - |

During the year three of the directors were paid by the company, (2021: none of the directors were paid by the company.)

Babcock Critical Services Limited

Notes to the financial statements (continued)

8 Directors' remuneration (continued)

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

| | 2022 | 2021 |
|--|------|------|
| | £000 | £000 |
| Emoluments (excluding pension contributions) | 291 | - |
| Defined contribution pension scheme | 22 | - |

During this year and the prior year none of the directors received any remuneration in respect of services to this company, as their services were considered incidental to their other services in the Group.

It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the company.

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.

9 Income tax

Tax expense included in income statement

| | 2022 | 2021 |
|--|------------|------------------|
| | £000 | Restated £000 |
| Deferred tax: | | |
| Origination and reversal of timing differences | 495 | 518 |
| Adjustment in respect of prior years | 51 | (131) |
| Impact of change in UK tax rate | 56 | - |
| Total deferred tax charge (note 9) | 602 | 387 |
| Total tax expense for the year | 602 | 387 |

Tax expense/(credit) included in other comprehensive income

| | 2022 | 2021 |
|--|--------------|----------------|
| | £000 | £000 |
| Deferred tax: | | |
| - Tax impact of actuarial gains/losses on pension liability | 2,702 | (1,437) |
| - Impact of change in UK tax rates | 1,100 | - |
| Tax expense/(credit) included in other comprehensive income | 3,802 | (1,437) |

Babcock Critical Services Limited

Notes to the financial statements (continued)

9 Income tax (continued)

Tax expense for the year is lower (2021: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

| | 2022 £000 | 2021 Restated £000 |
|--|----------------------------|--------------------------|
| (Loss)/profit before taxation | (2,899) | (512) |
| (Loss) multiplied by standard UK corporation tax rate of 19% (2021: 19%) | (551) | (97) |
| Effects of: | | |
| Expenses not deductible for tax/income not chargeable to tax | 41 | 471 |
| Group relief for nil consideration | 1,005 | 144 |
| Adjustment in respect of prior years | 51 | (131) |
| Impact of change in UK tax rate | 56 | - |
| Total tax charge for the year | 602 | 387 |

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

In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Babcock Critical Services Limited

Notes to the financial statements (continued)

9 Income tax (continued)

Deferred taxation

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

| | Pension asset £000 | Accelerated capital allowances £000 | Other £000 | Total £000 |
|--|--------------------------|--|---------------|---------------|
| At 1 April 2020: | 1,487 | 195 | (221) | 1,461 |
| - Charged to the income statement | 239 | (65) | 213 | 387 |
| - (Credited) to other comprehensive income | (1,437) | - | - | (1,437) |
| | 289 | 130 | (8) | 411 |
| At 31 March 2021: | | | | |
| - Charged to the income statement | 492 | 104 | 6 | 602 |
| - (Credited) to other comprehensive income | 3,802 | - | - | 3,802 |
| At 31 March 2022: | 4,583 | 234 | (2) | 4,815 |

10 Intangible assets

| | Computer Software £000 | Total £000 |
|---------------------------------|------------------------------|----------------|
| Cost | | |
| At 1 April 2021 | 1,222 | 1,222 |
| Disposals | - | - |
| At 31 March 2022 | 1,222 | 1,222 |
| Accumulated amortisation | | |
| At 1 April 2021 | (850) | (850) |
| Amortisation | (201) | (201) |
| Disposals | - | - |
| At 31 March 2022 | (1,051) | (1,051) |
| Net book value | | |
| At 31 March 2022 | 171 | 171 |
| At 31 March 2021 | 372 | 372 |

Babcock Critical Services Limited

Notes to the financial statements (continued)

11 Tangible fixed assets

| | Land £000 | Buildings & Leasehold Improvements £000 | Plant and equipment £000 | Total £000 |
|-------------------------------------|--------------|--|--------------------------------|----------------|
| Cost | | | | |
| At 1 April 2021 (previously stated) | 2,773 | 2,935 | 6,429 | 12,137 |
| Prior year adjustment | (1,550) | 2,496 | (2,682) | (1,736) |
| At 1 April 2021 (restated) | 1,223 | 5,431 | 3,747 | 10,401 |
| Additions | - | 57 | 226 | 283 |
| Disposals | - | - | - | - |
| At 31 March 2022 | 1,223 | 5,488 | 3,973 | 10,684 |
| Accumulated depreciation | | | | |
| At 1 April 2021 (previously stated) | - | (1,544) | (3,994) | (5,538) |
| Prior year adjustment | - | (946) | 2,682 | 1,736 |
| At 1 April 2021 (restated) | - | (2,490) | (1,312) | (3,802) |
| Charge for the year | - | (245) | (442) | (687) |
| Disposals | - | - | - | - |
| At 31 March 2022 | - | (2,735) | (1,754) | (4,489) |
| Net book value | | | | |
| At 31 March 2022 | 1,223 | 2,753 | 2,219 | 6,195 |
| At 31 March 2021 | 2,773 | 1,391 | 2,435 | 6,599 |

Contractual commitments for property, plant and equipment at year end is £nil (2021: £nil).

In the year ended 31 March 2022, the company restated the prior year financial information. An asset previously reported in Land should have been reported in the Buildings and Leasehold Improvements (£1,550,000). Also, historical overlay adjustments have been evaluated and reversed as the assets they relate to have been disposed of.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

12 Right-of-use assets

| | Property £'000 | Plant and equipment £'000 | Total £'000 |
|---------------------------------|-------------------|---------------------------------|----------------|
| Cost | | | |
| At 1 April 2021 | 8,181 | 1,342 | 9,523 |
| Additions | 866 | 60 | 926 |
| Disposals | (2,621) | (710) | (3,331) |
| At 31 March 2022 | 6,426 | 692 | 7,118 |
| Accumulated depreciation | | | |
| At 1 April 2021 | (1,704) | (688) | (2,392) |
| Charge for the year | (1,171) | (398) | (1,569) |
| Reclassifications | (247) | - | (247) |
| Disposals | 488 | 675 | 1,163 |
| At 31 March 2022 | (2,634) | (411) | (3,045) |
| Net book value | | | |
| At 31 March 2022 | 3,792 | 281 | 4,073 |
| At 31 March 2021 | 6,477 | 654 | 7,131 |

Babcock Critical Services Limited

Notes to the financial statements (continued)

13 Investments

| | 2022 | 2021 Restated* |
|--------------------------------------|------------------------|-----------------|
| | Shares in group | Shares in group |
| | undertakings | undertakings |
| | £'000 | £'000 |
| Cost | | |
| At 1 April | 66,353 | 66,353 |
| Additions | - | - |
| Disposals | - | - |
| At 31 March | 66,353 | 66,353 |
| Impairment | | |
| At 1 April | (49,969) | (46,505) |
| Prior year restatement (see note 25) | | (1,250) |
| (Charge)/reversal in the year | 29 | (2,214) |
| Disposals | - | - |
| At 31 March | (49,940) | (49,969) |
| Net Book Value | | |
| At 1 April | 16,384 | 18,598 |
| At 31 March | 16,413 | 16,384 |

Results of the current year impairment assessment:

The impairment test for the year ended 31 March 2022 resulted in reversals of previously recognised impairments against Babcock Vehicle Engineering Limited of £29,000.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

*In the year ended 31 March 2022, the company restated the prior year financial statements. Details of the restatement are contained in note 25.

Details of the investments are outlined in note 24.

Key assumptions

The key assumptions to which the recoverable amount of the company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 12 of the Group financial statements for the year ending 31 March 2022.

The value-in-use calculations do not include the anticipated benefits of the Group's revised operating model or the implementation costs of this project, reflecting that the Group was not committed to the project at 31 March 2022.

The discount rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 11.3% – 11.8% (2021: 10.9%). The long-term growth rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 2.0% – 2.4% (2021: 2%).

Babcock Critical Services Limited

Notes to the financial statements (continued)

13 Investments (continued)

Sensitivity

The directors carried out sensitivity analysis on the reasonably possible changes in key assumptions used to determine the recoverable value of the company's investment in subsidiary undertakings.

The company's calculation of recoverable value presents an impairment reversal of £29,000 in the year ending 31 March 2022, as well as an impairment reversal of £16.9m in the prior year. Further detail around the prior year impairment reversal is included in note 25. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The company carried out sensitivity analysis on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for the company's investment in subsidiary undertakings.

An increase to the pre-tax discount rate of 100 basis points would cause an increase to the impairment of £1.6m. A decrease to the long-term growth rate of 50 basis points would cause an increase to the impairment of £0.6m.

The directors consider that key cash flow assumptions in the calculation of the recoverable value of the company's investment in subsidiary undertakings include short-term cash flows. If the year-on-year growth is decreased by 15%, the value in use for the company's investment in subsidiary undertakings decreases by £0.8m.

14 Inventories

| | 2022 | 2021 |
|-------------------------------------|--------------|-------|
| | £000 | £000 |
| Finished goods and goods for resale | 1,505 | 1,861 |
| | 1,505 | 1,861 |

There is no significant difference between replacement costs of finished goods and goods for resale and their carrying amounts. Inventories are stated after provision for impairment of £199,304 (2021: £266,931).

Babcock Critical Services Limited

Notes to the financial statements (continued)

15 Trade and other receivables

| | 2022 | 2021 |
|---|---------------|----------|
| | £000 | £000 |
| | | Restated |
| Amounts falling due within one year: | | |
| Trade receivables | 5,587 | 3,169 |
| Finance asset | 636 | 850 |
| Contract assets | 9,554 | 7,782 |
| Amounts owed by group undertakings | 165 | 158 |
| Other receivables and prepayments | 2,764 | 3,704 |
| | 18,706 | 15,663 |

| | 2022 | 2021 |
|--|---------------|----------|
| | £000 | £000 |
| | | Restated |
| Amounts falling due after one year: | | |
| Amounts owed by group undertakings | 57,137 | 57,137 |
| | 57,137 | 57,137 |

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

In the year ended 31 March 2022, the company restated the prior year financial information. Details of the restatement are contained in note 25.

Amounts due from Group undertakings are all due from fellow subsidiary companies of the ultimate parent, Babcock International Group Plc and comprise the following:

- Three loans totalling £57,137,000 (2021: £57,137,000) are repayable on demand, with no interest charge.
Debtors totalling £165,000 (2021: £158,000)

| | Contract asset |
|---|-----------------------|
| | £'000 |
| At 31 March 2021 | 7,782 |
| Transfers from contract assets recognised at the beginning of the year to receivables | (7,782) |
| Increase due to work done not invoiced | 9,554 |
| At 31 March 2022 | 9,554 |

Babcock Critical Services Limited

Notes to the financial statements (continued)

16 Trade and other payables

| | 2022 | 2021 |
|---|----------------|----------|
| | £000 | £000 |
| | | Restated |
| Amounts falling due within one year: | | |
| Trade payables | 1,310 | 3,291 |
| Amounts owed to parent and group undertakings | 96,764 | 95,734 |
| Other taxation and social security | 1,110 | 2,740 |
| UK corporation tax payable | - | 56 |
| Accruals | 5,876 | 3,814 |
| Contract liabilities | 4,548 | 4,085 |
| | 109,608 | 109,720 |

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand.

Amounts due to Group undertakings are all due to fellow subsidiary companies of the ultimate parent, Babcock International Group Plc and comprise the following:

- Two loans totalling £94,900,000 (2021: £93,624,000) are repayable on demand, with no interest charge.
- Creditors totalling £1,864,000 (2021: £2,110,000)

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 (note 21).

| | Contract liabilities |
|---|-----------------------------|
| | £'000 |
| At 31 March 2021 | 4,085 |
| Revenue recognised that was included in contract liabilities at the beginning of the year | 463 |
| At 31 March 2022 | 4,548 |

17 Lease liabilities

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

| | 2022 | 2021 |
|----------------------------|----------------|---------|
| | £'000 | £'000 |
| Opening value of liability | 7,702 | 8,851 |
| Additions | 60 | 198 |
| Disposals | (2,157) | (80) |
| Interest charged | 319 | 415 |
| Payments | (1,539) | (1,682) |
| Closing value of liability | 4,385 | 7,702 |

Babcock Critical Services Limited

Notes to the financial statements (continued)

17 Lease liabilities (continued)

The entity leases various premises under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases. Discounted future minimum lease payments are as follows:

| | 2022 | 2021 |
|---|--------------|-------|
| | £'000 | £'000 |
| Within one year | 894 | 1,136 |
| In more than one year, but not more than five years | 2,778 | 2,662 |
| After five years | 713 | 3,904 |
| Carrying value of liability | 4,385 | 7,702 |

The following are the amounts recognised in profit or loss:

| | 2022 | 2021 |
|--|--------------|-------|
| | £'000 | £'000 |
| Expense relating to short-term leases | 70 | 83 |
| Expense relating to leases of low-value assets | 292 | 18 |
| | 362 | 101 |

18 Provisions for liabilities

| | Dilapidations provision £000 | Employee related provision £000 | Total £000 |
|--|------------------------------------|--|---------------|
| At 1 April 2021 – previously stated | 18 | - | 18 |
| Prior year adjustment | | | |
| At 1 April 2021 - restated | 18 | - | 18 |
| Charged/(credited) to the income statement | 1,423 | 137 | 1,560 |
| At 31 March 2022 | 1,441 | 137 | 1,578 |

Dilapidation provisions

Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

Babcock Critical Services Limited

Notes to the financial statements (continued)

19 Called up Share capital

| | 2022 | 2021 |
|--|---------------|--------|
| | £000 | £000 |
| Allotted and fully paid | | |
| 19,908,300 ordinary shares of £1 each (2021: 19,908,300) | 19,908 | 19,908 |

20 Dividends

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

21 Contingent liabilities

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).

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

22 Related party 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.

23 Pension commitments

The company accounts for pension costs in accordance with IAS 19. The company contributes to a defined contribution scheme in the UK in respect of a number of its employees, at a cost of £1,946,000 (2021: £1,323,000). The company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

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

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

Babcock Critical Services Limited

Notes to the financial statements (continued)

23 Pension commitments (continued)

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

In the last financial year, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active deferred members of the scheme, retaining a final salary link.

Babcock International Group PLC Pension Scheme

In the year ended 31 March 2022, Babcock International Plc restated the prior year Babcock International Group Pension Scheme retirement benefit surplus. The change relating to Babcock Critical Services is not material so has been adjusted through the financial statements for the current year, details of the restatement in the Babcock International PLC account are contained in note 24.

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 2021. The major assumptions used for the IAS 19 valuation were:

| | 2022 % | 2021 % |
|-------------------------------------|-----------|-----------|
| Major assumptions | | |
| Rate of increase in salaries | 3.4 | 2.9 |
| Rate of increase in pension payment | 3.5 | 3.1 |
| Discount rate | 2.7 | 2.0 |
| Inflation | 3.2 | 2.7 |

The expected total employer contributions to be made by participating employers to the scheme in 2022/23 are £9.3m. The future service rate is 51.1%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

| | 2022 Years | 2021 Years |
|---|---------------|---------------|
| Life expectancy from age 65 (male age 65) | 21.8 | 22.1 |
| Life expectancy from age 65 (male age 45) | 22.4 | 22.7 |

Babcock Critical Services Limited

Notes to the financial statements (continued)

23 Pension commitments (continued)

The changes to the Babcock International Group Plc statement of financial position at 31 March 2022 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2022, if the assumptions were sensitised by the amounts below, would be:

| | Defined benefit obligations 2022 £000 | Income statement 2022 £000 |
|--|--|---|
| Initial assumptions | 1,283,066 | 2,927 |
| Discount rate assumptions increased by 0.5% | (87,120) | (4,212) |
| Discount rate assumptions decreased by 0.5% | 98,026 | 3,643 |
| Inflation rate assumptions increased by 0.5% | 52,092 | 1,910 |
| Inflation rate assumptions decreased by 0.5% | (47,730) | (1,736) |
| Total life expectancy increased by half a year | 31,307 | 936 |
| Total life expectancy decreased by half a year | (28,741) | (861) |
| Salary increase assumptions increased by 0.5% | 6,929 | 415 |
| Salary increase assumptions decreased by 0.5% | (6,544) | (392) |

The weighted average duration of cash flows (years) was 14 (2021: 17 years).

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2022 were:

| Fair value of plan assets | 2022 £'000 | 2021 Restated £'000 |
|--|-----------------------|---------------------------|
| Equities | 7,701 | (79) |
| Property | 121,945 | 138,681 |
| High yield bonds / emerging market debt | 19,785 | 138,160 |
| Absolute return and multi strategy funds | - | 77,583 |
| Bonds | 662,075 | 586,837 |
| Matching assets | 711,526 | 551,788 |
| Scheme assets | 1,523,032 | 1,492,970 |
| Active position on longevity swaps | (65,800) | (67,060) |
| Total assets | 1,457,232 | 1,425,910 |
| Present market value of liabilities - funded | (1,283,066) | (1,408,078) |
| Pension surplus | 174,166 | 17,832 |

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

The longevity swaps have been valued, in 2022, in line with assumptions that are consistent with the requirements of IFRS 13.

The equity investments and bonds are valued at bid price.

Babcock Critical Services Limited

Notes to the financial statements (continued)

23 Pension commitments (continued)

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

| Analysis of amount charged to the income statement in Babcock International Group Plc | 2022 £000 | 2021 Restated £000 |
|--|----------------------------|--------------------------|
| Current service cost | 5,873 | 5,741 |
| Incurring expenses | 2,506 | 2,596 |
| Past service cost | - | 999 |
| Total included within operating profit | <u>8,379</u> | <u>9,336</u> |
| Net interest income | <u>(537)</u> | <u>(2,776)</u> |
| Total charged to the income statement | <u>7,842</u> | <u>6,560</u> |

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £882,000 for service cost and incurred expenses (2021: £797,000), and net interest income of £57,000 (2021: net interest income of £237,000).

| Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl") | 2022 £000 | 2021 Restated £000 |
|--|----------------------------|--------------------------|
| Actuarial gain/(loss) recognised in the SOCl | 119,728 | (117,988) |
| Experience (loss)/gain | (16,961) | 4,590 |
| Other losses | 2,601 | 3,023 |
| | <u>(105,368)</u> | <u>(110,375)</u> |

The actuarial gain recognised in the Statement of Comprehensive Income in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £14,222,000 (2021: loss of £7,364,000).

| Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc | 2022 £000 | 2021 Restated £000 |
|--|----------------------------|--------------------------|
| At 1 April | 1,425,910 | 1,384,579 |
| Interest income | 28,017 | 32,601 |
| Employee contributions | 71 | 99 |
| Employer contributions | 58,808 | 26,981 |
| Benefits paid | (75,881) | (80,924) |
| Actuarial gain | 20,307 | 62,574 |
| At 31 March | <u>1,457,232</u> | <u>1,425,910</u> |

Babcock Critical Services Limited

Notes to the financial statements (continued)

23 Pension commitments (continued)

| | 2022 £000 | 2021 Restated £000 |
|---|------------------|--------------------------|
| Reconciliation of present value of scheme liabilities in Babcock International Group plc | | |
| At 1 April | 1,408,078 | 1,276,793 |
| Service cost | 5,873 | 5,741 |
| Incurred expenses | 2,506 | 2,596 |
| Interest on liabilities | 27,480 | 29,825 |
| Employee contributions | 71 | 99 |
| Actuarial loss/(gain) – demographics | (22,776) | 11,371 |
| Actuarial (gain)/loss – financial | (79,246) | 166,168 |
| Experience losses/(gains) | 16,961 | (4,590) |
| Benefits paid | (75,881) | (80,924) |
| Settlement | - | 999 |
| At 31 March | <u>1,283,066</u> | <u>1,408,078</u> |

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £18,333,000 (2021: asset of £1,523,000).

The Babcock International Group pension scheme values were restated in the Group accounts, see note 25 for details.

24 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the company are as listed below:

| Company Name | Country | Direct % | Ultimate% |
|-------------------------------------|---------|----------|-----------|
| Babcock Vehicle Engineering Limited | England | 100.0% | 100.0% |
| Transfleet Distribution Limited | England | 100.0% | 100.0% |

The registered office of all undertakings is 33 Wigmore Street, London, W1U 1QX, England. All subsidiary undertakings are incorporated and operate in the United Kingdom.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

25 Prior year restatement

The following tables show the effect on the 2021 income statement and balance sheet of the prior year restatement:

| | 2021 As previously stated £000 | c)Defined Benefit Pension true up £000 | d) Investment impairment £000 | 2021 Restated £000 |
|---|---|--|-------------------------------------|-----------------------------------|
| Revenue | 74,670 | - | - | 74,670 |
| Cost of sales | (66,929) | - | - | (66,929) |
| Gross profit | 7,741 | - | - | 7,741 |
| Administrative expenses | (6,225) | 145 | - | (6,080) |
| Other operating income | 3 | - | - | 3 |
| Amounts written off investments | (19,200) | - | 16,986 | (2,214) |
| Operating (loss)/profit | (17,681) | 145 | 16,986 | (550) |
| Income from shares in group undertakings | - | - | - | - |
| Finance income | 323 | - | - | 323 |
| Finance expenses | (522) | - | - | (522) |
| Other finance income - pensions | 287 | (50) | - | 237 |
| (Loss)/profit before taxation | (17,593) | 95 | 16,986 | (512) |
| Income tax expense | (369) | (18) | - | (387) |
| (Loss)/profit for the financial year | (17,962) | 77 | 16,986 | (899) |

Babcock Critical Services Limited

Notes to the financial statements (continued)

25 Prior year restatement (continued)

Restatement of financial position

| | 2021 as previously stated £000 | a) Intra- group receivables reclass £000 | b) Inter company loan adj £000 | c) Defined benefit Pension true up £000 | d) Investment impairment £000 | 2021 Restated £000 |
|--|---|--|---|---|-------------------------------------|--------------------------|
| Non-current assets | | | | | | |
| Intangible assets | 372 | - | - | - | - | 372 |
| Tangible fixed assets | 6,599 | - | - | - | - | 6,599 |
| Right-of-use assets | 7,131 | - | - | - | - | 7,131 |
| Investments | 648 | - | - | - | 15,736 | 16,384 |
| Trade and other receivables – amounts falling due after one year | - | 57,137 | - | - | - | 57,137 |
| Pension asset | 1,763 | - | - | (240) | - | 1,523 |
| | 16,513 | 57,137 | - | (240) | 15,736 | 89,146 |
| Current assets | | | | | | |
| Inventories | 1,861 | - | - | - | - | 1,861 |
| Trade and other receivables | 87,971 | (57,137) | (15,171) | - | - | 15,663 |
| Cash and cash equivalents | 5,219 | - | - | - | - | 5,219 |
| | 95,051 | (57,137) | (15,171) | - | - | 22,743 |
| Current liabilities | | | | | | |
| Trade and other payables | (124,892) | - | 15,171 | - | - | (109,721) |
| Lease liabilities | (1,136) | - | - | - | - | (1,136) |
| Cash and cash equivalents | (949) | - | - | - | - | (949) |
| Net current liabilities | (31,926) | (57,137) | - | - | - | (89,063) |
| Total assets less current liabilities | (15,413) | - | - | (240) | 15,736 | 83 |
| Lease liabilities | (6,566) | - | - | - | - | (6,566) |
| Provisions for liabilities | (475) | - | - | 46 | - | (429) |
| Net (liabilities)/assets | (22,454) | - | - | (240) | 15,736 | (6,912) |
| Equity | | | | | | |
| Accumulated loss (brought forward at 1 April 20)* | (18,546) | - | - | (198) | (1,250) | (19,994) |
| Accumulated Loss at 31 March 2021 | (42,362) | - | - | (194) | 15,736 | (26,820) |
| Total Equity (brought forward at 1 April 20)* | 1,362 | - | - | (198) | (1,250) | (86) |
| Total Equity at 31 March 2021* | (22,454) | - | - | (194) | 15,736 | (6,912) |

Babcock Critical Services Limited

Notes to the financial statements (continued)

25 Prior year restatement (continued)

* The tables above include only those financial statement line items which have been restated. The total profit for the year, non-current assets, net current assets/(liabilities) and equity, do not therefore represent the sum of the line items presented above.

a) Intra-group receivables

In the prior year, amounts due from group undertakings were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and considering the fact these assets are not expected to be settled within the next 12 months, the classification has been reassessed. The amounts due from group undertakings has now been presented within non-current assets. The balance sheet and applicable note in the comparative period have been restated accordingly. The impact on the statement of financial position balance sheet is to decrease current assets by £57,137,000, and to increase non-current assets by £57,137,000.

b) Intercompany loan

In the prior year loan balances with Babcock Vehicle Engineering Ltd of £15,171,000 were shown in current assets and current liabilities, the financial statements have been restated to net the debtor and creditor as the intention is to settle the receivable and payable balances on a net basis. The impact on the statement of financial position balance sheet is to decrease trade and other receivables by £15,171,000, and to decrease trade and other payables by £15,171,000.

c) Defined benefit pension true up

Longevity swap valuation

The longevity swap related to the Babcock International Group pension scheme was previously valued in line with the collateral posted by the scheme with the 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.

Change to Membership Data

Furthermore, a change to membership data, and a refinement in the calculation of the value of the defined benefit obligation for the scheme which 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, has been reflected in the prior year. This approach was not appropriately followed in the year ended 31 March 2021.

The above restatements in the Group financial statements has resulted in a £240,000 reduction to the pension asset allocated to Babcock Critical Services Ltd for year ended 31 March 2021. The impact of the restatement on the prior year income statement is to reduce administrative expenses £145,000, reduce finance income £50,000 and reduce the tax charge £18,000. The impact on the statement of financial position balance sheet is to decrease pension asset £240,000, decrease provisions for liabilities £46,000 and increase the brought forward accumulated losses by £194,000.

Babcock Critical Services Limited

Notes to the financial statements *(continued)*

25 Prior year restatement *(continued)*

d) Investment impairment

In the year ended 31 March 2022 it was identified that the impairment assessment for the company's investment in subsidiary undertakings incorrectly calculated the recoverable amount for the prior two years. Re-performance of this assessment using the appropriate recoverable amount results in a reversal of the impairment in year ending 31 March 2021 and a change to the impairment charge in the year ending 31 March 2020. Impairment had been understated in the year ending 31 March 2020, which results in a change to opening Retained Earnings for the year ending 31 March 2021 of £1.25m.

The prior year reversal of impairment of £16.7m results in a net investment value of £16.4m. Further detail is included in the restatement table above.

26 Post Balance Sheet Events

In early 2023 the company was notified that it had been unsuccessful in its bid to continue delivering services to the Metropolitan Police Service after the conclusion of the current contract term that ends in October 2023. This contract made up approximately half of the company's revenue in the Year ending March 2022.

27 Ultimate parent undertaking

The company's immediate parent company is Babcock Critical Assets Holdings LLP, a limited liability partnership registered in England and Wales. The company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the company are consolidated is that headed by Babcock International Group PLC.

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

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