

Cavendish Nuclear Limited
Annual report and financial statements
for the year ended 31 March 2022

Registered number: 3975899

COMPANY INFORMATION

Directors

**JE Fulton
Dr S Doherty
MD Lawton
MR Gomall
DKieran**

Company secretary

Babcock Corporate Secretaries Limited

Registered Number

3975999

Registered office

**33 Wigmore Street
London
United Kingdom
W1U 1QX**

Independent auditor

**Deloitte LLP
1 New Street Square
London
EC4A 4HQ**

Strategic report for the year ended 31 March 2022

The Directors present their Strategic report on the Company for the year ended 31 March 2022

Review of Business and Principal Activities

Cavendish Nuclear Limited operates across the Civil Nuclear industry. Principal activities encompass:

- 1. Supporting critical defence infrastructure upgrades and helping to keep the UK's fleet of submarines at sea**
- 2. Consultancy, design, support to reactor outages and plant operations**
- 3. Decommissioning of nuclear related infrastructure, associated facilities and equipment**
- 4. Supporting the operation and build of nuclear power plants**

Cavendish Nuclear Limited

Strategic report for the year ended 31 March 2022 (continued)

Key performance indicators

	2022	2021 As restated
	£000	£000
Order Intake	178,578	173,171
Revenue	202,783	193,794
Profit for the financial year	25,676	2,636
Return on Sales	12.7%	1.4%

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 27.

Order intake represents the value of orders received from clients in the year. Order intake also supports future years revenue performance. A number of Cavendish contracts are won based on frameworks such as the PP&E contract and therefore are only taken to order book once each phase is agreed.

Revenue represents the amounts derived from the provision of goods and services. Revenue has increased by 4.6% in 2022 compared to 2021, primarily due to the completion of the Qu&e under the Partidge project.

Profit for the financial year is based on profit before overheads. The improvement seen in operating profit is due to the completion of the Qu&e under the Partidge project.

Strategic report for the year ended 31 March 2022 (continued)

Risk mitigation and control process:

- i) The business is responsive, and innovative, to ensure it is meeting customer needs
- ii) The business has extensive dialogue with customers to ensure that we have a clear understanding of their changing requirements and priorities
- iii) Projects are reviewed and monitored on a frequent basis to ensure we are delivering to customer agreed targets
- iv) The resource base includes a high level of agency staff enabling the business to flex its resources to meet project demands

Risk mitigation and control process:

- i) A dedicated team is in place to focus on attracting and developing talent
- ii) Apprentice and graduate recruitment programmes are run annually
- iii) The business has a succession plan in place for all key staff and roles

Climate action is a key focus: we are continuing to progress our Group wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information is included on page 54 of the annual report of Babcock International Group Plc.

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.

S172(1) Statement and Stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53, and 101 of the annual report of Babcock International group PLC, which does not form part of this report.

Independent auditors' report to the members of Cavendish Nuclear Limited

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

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 pensions and tax legislation; and

- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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

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

- 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 and external legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

Independent auditors' report to the members of Cavendish Nuclear Limited

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit

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Independent auditors' report to the members of Cavendish Nuclear Limited

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.

**Mukhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 June 2023**

Cavendish Nuclear Limited

Income statement for the year ended 31 March 2022

	Note	2022 £000	2021 As restated £000
Revenue	4	202,788	193,794
Cost of revenue		(162,595)	(157,513)
Gross profit		40,193	36,281
Administration and distribution expenses		(22,464)	(24,255)
Operating profit	5	17,729	12,026

Cavendish Nuclear Limited

Statement of financial position as at 31 March 2022

		2022	2021
	Note	£000	As restated £000
Non current assets			
Intangible assets	11	98,473	93,645
Property, plant and equipment	12	6,106	6,406
Right-of-use assets	13	2,941	7,157
Investments in subsidiaries	14	-	2,000
Trade and other receivables	16	74,492	78,685
Other financial assets	19	590	925
Retirement benefit surpluses	24	144,768	20,371
		322,366	209,199

Statement of changes in equity as at 31 March 2022

Cavendish Nuclear Limited

Notes to the financial statements

Registered number 3975889

Cavendish Nuclear Limited

Notes to the financial statements (continued)

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Notes to the financial statements (continued)

2 Summary of significant accounting policies

Revenue

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:

In the case of engineering services, control is deemed to transfer to the customer when the service is performed

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outcome 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 FRS 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,

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Notes to the financial statements (continued)

2 Summary of significant accounting policies

Revenue

Accounting for contract modifications

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

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

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace

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Notes to the financial statements (continued)

2 Summary of significant accounting policies

Taxation

a) Current income tax

Cavendish Nuclear Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies

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 judgements

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

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Notes to the financial statements (continued)

6 Finance income and costs

	2022	2021
		As
		restated
	£000	£000
Finance income:		

Cavendish Nuclear Limited

Notes to the financial statements (continued)

Cavendish Nuclear Limited

Notes to the financial statements (continued)

9 Share based payments

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

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

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 4,784 matching shares were purchased on the open market (2021: 5,000 matching shares) and 2,823 matching shares vested (2021: 1,193 matching shares) leaving a balance of 6,973 matching shares (2021: 5,012 matching shares).

10 Tax

Income tax expense

	Year ended 31 March 2022 £000	Year ended 31 March As restated 2021 £000
Analysis of tax expense/(benefit) in the year		
Current tax		
UK current year expense/(benefit)	-	-
UK prior year (benefit)	-	-
Overseas prior year expense	-	-
	<hr/>	<hr/>
Deferred tax		
UK current year expense	3834	3675
UK prior year expense	(1,508)	(372)
Impact of changes in tax rates	(413)	-
	<hr/>	<hr/>
Total income tax expense	1,913	3,303

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Notes to the financial statements (continued)

10 Tax

Income tax expense

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

**Year ended
31 March**

**2022
£000**

Cavendish Nuclear Limited

Notes to the financial statements (continued)

10 Tax

Deferred tax

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

	Tangible assets £000	Retirement benefit obligations £000	Other £000	Total £000
At 1 April 2021 as restated	632	(5,359)	773	(3,954)
Income statement credit/(debit)	(57)	(3,717)	(59)	(3,833)
Prior year adjustment				

Cavendish Nuclear Limited

Notes to the financial statements (continued)

13 Leases

Right of use assets

The Company leases property and vehicles under non cancellable lease arrangements.

	Property £000	Plant and equipment £000	Total £000
Cost			

Cavendish Nuclear Limited

Notes to the financial statements (continued)

21 Dividends

No dividends were declared and paid in the year (2021: £Nil). There are no plans for a final dividend

22 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2021 the Company had capital commitments of £nil (2021: £256,000).

b) Lease Commitments

At 31 March 2022 the Company had lease commitments of £nil for leases not yet commenced (2021: £nil).

23 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the

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Notes to the financial statements (continued)

24 Pension commitments

Electricity Supply Pension Scheme

31 March

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Notes to the financial statements (continued)

24 Pension commitments

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,

Cavendish Nuclear Limited

Notes to the financial statements (continued)

24 Pension commitments

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Notes to the financial statements (continued)

24 Pension commitments

The amounts recognised in the income statement are as follows:

	2022 £000	2021 £000
Current service cost	1,458	1,214
Incurred expenses	2	-
Past service cost	-	10
Total included within operating profit	1,460	1,224
Net interest cost/(credit)	(204)	(364)
Total included within income statement	1,256	860

Amounts recorded in the statement of comprehensive income

	2022 £000	2021 £000
Actual return less interest on pension scheme assets	7,937	(13,429)
Experience gains arising on scheme liabilities	553	1,729
Other gains on assets	3,429	2,644
	11,919	(9,056)

Analysis of movement in the Group statement of financial position:

	2022 £000	2021 £000
Fair value of plan assets		
At 1 April	81,673	77,243
Interest on assets	1,632	1,772
Actuarial gain on assets*	3,429	2,644
Employer contributions	2,090	1,537
Benefits paid	(1,377)	(1,523)
Settlements		
At 31 March	87,447	81,673
Present value of benefit obligations		
At 1 April	71,329	58,519
Service cost	1,458	1,212
Incurred expenses	2	2
Interest cost	1,428	1,409
Experience gain	(553)	(1,729)
Actuarial gain – demographics	(65)	(107)
Actuarial (gain)/loss – financial	(7,872)	13,536
Benefits paid	(1,377)	(1,523)
Past service costs	-	10
At 31 March	64,350	71,329
Net surplus at 31 March	23,097	10,344

The Company also contributes to a defined contribution scheme in the UK in respect of a number of its employees. Contributions to the scheme amounted to £6,736,000 for the year (2021: £6,563,000).

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Notes to the financial statements (continued)

27 Prior year restatements (continued)

31 March 2021 – Statement of financial position (extract)

31 March 2021 (previously published)	(i) IIG DB Pension Scheme Longevity Swap	(ii) IIG DB Pension Scheme	com
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