Devonport Royal Dockyard Limited

Annual report and financial statements

For the year ended 31 March 2022

Company registration number:

02077752

Investors (continued)

What matters to them

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

S172(1) statement and stakeholder engagement (continued)

Regulators

Why they matter to us

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

What matters to them

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

How the Company engages

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

Employees

Why they matter to us

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

What matters to them

S172(1) statement and stakeholder engagement (continued)

Employees (continued)

How the Company engages

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

Communities

Why they matter to us

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

What matters to them

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

How the Company engages

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

S172(1) statement and stakeholder engagement (continued)

Sustainability is an integral part of our corporate strategy and how we do business, and it underpins

Directors' report for the year ended 31 March 2022

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

Going concern (continued)

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net

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

Corporate governance statements (continued)

Processes will be subject to ongoing continuous improvement. These activities form part of the Risk

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

Energy and carbon reporting

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

Engagement with suppliers and customers

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

Employees

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

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

Environment

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

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

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within t0 (r)-3.30.50 (r)-( )

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

Statement of disclosure of information to independent auditors

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

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

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

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

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

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax and pensions legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

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

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

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

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
-

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

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

In common with all audits under ISAs (UK), we are also required to perform specific procedures to

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

USE OF OUR REPORT

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

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

Devonport Royal Dockyard Limited

Income statement for the year ended 31 March 2022

	Note	2022

Devonport Royal Dockyard Limited

Statement of comprehensive income for the year ended 31 March 2022

	Note	2022	2021 Restated
		£000	£000
Profit for the financial year		**21,232**	58,508
Other comprehensive income/(expense):			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges		**(67)**	(178)
Items that will not be subsequently reclassified to income statement:			
Gain/(loss) on measurement of net defined benefit obligation	25	**58F0 11.0290 Tr**	**[.(sur)-3987B 66**

Devonport Royal Dockyard Limited

Notes to the financial statements

1 General information

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

2 Accounting policies

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

Basis of preparation

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Revenue (continued)

Assessment of contract profitability

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

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

(d) Costs of obtaining a contract

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Contingent liabilities

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

Cash and cash equivalents

Notes to the financial statements (continued)

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Inflation

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

4 Revenue

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

	2022	2021
	£000	£000
By area of activity:		
Sales of goods		

Notes to the financial statements (continued)

6 Finance income and costs

	2022	2021
	£000	£000
Finance income:		

Notes to the financial statements (continued)

8 Directors' emoluments

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

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

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

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

No retirement benefits are accruing under the Group defined contribution scheme (2021: no retirement benefits were accruing under the Group defined contribution scheme). The total value of Company contributions paid to the scheme during the year in respect of directors' qualifying services was £nil (2021: £nil).

Eleven directors held office at some point during the year and up to date of signing the annual report. Except for seven (2021: three) directors, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2022	2021
	£000	£000
Emoluments (including benefits in-kind but excluding pension contributions)	**382**	522
Defined benefit pension scheme:		

Notes to the financial statements (continued)

9 Share based payments (continued

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

There are no performance conditions attached to the DBP.

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

The Group also operates then l vlo ryeaall0 (n)-4y3.50 (r)-53(S)-8.6 pa30 (f)-4a.20 (l)4.3060 (u)2(t)-4.10 ( )-5.

Classification:

Notes to the financial statements (continued)

10 Tax (continued)

Deferred tax (continued)

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

	Tangible assets £000	Retirement benefit obligations £000	Tax losses £000	Other £000	Total £000
At 1 April 2021	(1,796)	(8,222)	-	35	(9,983)
Income statement (debit)/credit	(2,193)	(353)	-	2	(2,544)
Tax (debit)/credit to other comprehensive income/equity	-	(17,342)	-	11	(17,331)
At 31 March 2022	(3,989)	(25,917)	-	48	(29,858)

Notes to the financial statements (continued)

11 Intangible assets

	Intangible Software (IS) £000	Assets Under Construction (AUC) £000	Intangible Total £000
Cost			
At 1 April 2021 restated*	60,078	787	60,865
Additions	33	1,687	1,719
Transfer from AUC	38	(38)	-
Reclassification AUC	-	865	865
Reclassification IS to PE	(3,205)	(314)	(3,519)
Disposals	(265)	-	(265)
At 31 March 2022	**56,679**	**2,986**	**59,665**
Accumulated amortisation and impairment			
At 1 April 2021	(58,363)	-	(58,363)
Amortisation	(1,3		(1,303)
Reclassification	4,1		4,116
At 31 March 2022	**(55,550)**	**-**	**(55,550)**
Net book value at 31 March 2022	**1,129**	**2,986**	**4,115**
Cost			
At 1 April 2020 as previously stated	65,700	-	65,700
Reclassification of assets under construction	(1,098)	1,0981 u602 69 >> 1 11.22	
At 1 April 2020 restated*	64,602	A vB† "ën Ÿ05ãpBJ	

Notes to the financial statements (continued)

13 Leases

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

Lease liabilities

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

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

Notes to the financial statements (continued)

13 Leases (continued)

Discounted future minimum lease payments are as follows:

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

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

The following are the amounts recognised in profit or loss:

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

Notes to the financial statements (continued)

15 Inventories (continued)

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

16 Trade and other receivables

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

Amounts due from group undertakings comprise the following:

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

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

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

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

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

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

Notes to the financial statements

Notes to the financial statements (continued)

18 Prior year restatements (continued)

(iv) Appledore Shipbuilders (2004) Limited (ASL) adjustments

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

(v) Reclassification of corporation tax receivable and payable and adjustment

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

In addition, a £2.7m accrual adjustment, included within trade and other payables in the

Notes to the financial statements (continued)

25 Pension commitments (continued)

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

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

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

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

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

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

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

a) **Devonport Royal Dockyard Pension Scheme**

The IAS 19 valuation has been updated at 31 March 2022 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2020. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2022 %**	2021 %
Rate of increase in pensionable salaries	**3.4**	2.9
Rate of increase in pension payment	**3.2**	2.7
Discount rate	**2.7**	2.0
Inflation rate	**3.2**	2.7
Weighted average duration of cash flows (years)	**18**	18
Life expectancy for current pensioners aged 65 (years)	**20.9**	20.7
Life expectancy for future pensions currently aged 45 (years)	**21.6**	21.8

Notes to the financial statements (continued)

25 Pension commitments (continued)

a) Devonport Royal Dockyard Pension Scheme (continued)

The expected total employer contributions to be made by participating employers to the scheme in 2022/23 are £38.0m. The future service rate is 21.6%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £38.0m is £18.6m of deficit recovery payments.

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

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

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

	Defined benefit obligations 2022 £000	Income statement 2023 £000
Initial assumptions	1,811,060	15,539
Discount rate assumptions increased by 0.5%	1,670,522	8,760
Discount rate assumptions decreased by 0.5%	1,970,977	21,579
Inflation rate assumptions increased by 0.5%	1,931,314	19,358
Inflation rate assumptions decreased by 0.5%	1,700,223	11,889

Notes to the financial statements (continued)

25 Pension commitments (continued)

a) Devonport Royal Dockyard Pension Scheme (continued)

Notes to the financial statements (continued)

27 Post balance sheet events

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

28 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Marine (Devonport) Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in