

Frazer-Nash Consultancy Limited

Annual report

For the year ended 31 March 2021

Company registration number:

02562870



Frazer-Nash Consultancy Limited

Directors and advisors

Current directors

R R Burge
D M Jones
N M McDougall
I S Urquhart

Company secretaries

R R Burge
Babcock Corporate Secretaries Limited

Registered office

c/o Devonport Royal Dockyard Limited
Devonport, Plymouth
DEVON
PL1 4SG

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Frazer-Nash Consultancy Limited

Strategic report for the year ended 31 March 2021

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

Principal activities

The principal activity of the Company is the provision of systems and engineering technology consultancy.

Review of the business

The results for the financial year ended 31 March 2021 show revenue of £100.5 million (2020: £101.9 million), a decrease of 1%. The fact that turnover remained broadly static during very challenging trading conditions driven by the COVID-19 pandemic is testament to the quality of our staff, their agility, diligence and application. Our average staff numbers were 872 (2020: 823), an increase of 6% as we recruited in response to customer demands and to compensate for the reduced efficiency driven by pandemic restrictions. Profit before interest and taxation was £13.5 million (2020: £17.1 million), a decrease of 21%, a reflection of that efficiency reduction with staff performing domestic and business duties in parallel as imposed at times during the year by the pandemic restrictions. We maintained a healthy net asset position of £29.6 million, an increase of 79% on prior year.

Key performance indicators

	2021	2020
Revenue growth	(1)%	3%
Operating return on revenue	13%	17%
Orderbook (£000s)	45,250	30,249
Current assets as a % of current liabilities	157%	124%
Average number of employees (including directors)	872	823
Debtor days	61	61

The growth and performance of Marine, a division of Babcock International Group PLC, which includes the Company, is discussed in the annual report of Babcock International Group PLC, which does not form part of this report.

Development and performance

A key feature of the sustained growth of the business over many years has been the strategic imperative to maintain a balanced portfolio of business activity spanning a number of market sectors. Whilst historically this has delivered growth it is also intended to deliver resilience to rapid changes in our markets. We experienced this in April 2020 with a sudden reduction in demand from our civil aviation sector. Our operating model allowed staff to quickly pivot, winning replacement work from, and delivering support to, customers in our Defence and Energy sectors.

2020/21 saw strong performances from our Defence and Energy businesses and our Programmes business that focuses on larger frameworks and stand alone projects delivered well.

In Defence we are supporting both government in procurement activities and major suppliers as they seek to supply equipment to our armed forces. Our diverse portfolio of services are deployed across all domains (land, ships, submarines and air) and the prospects for 2021/22 look strong as we have secured important positions on several major programmes.

Strategic report for the year ended 31 March 2021 *(continued)*

Development and performance *(continued)*

Within our Energy business we have continued to work towards achieving a diverse portfolio of services and markets. Whilst our heartland remains supporting electricity generators and extending the life of their ageing nuclear assets, we have continued to grow our business in other energy related fields: in power transmission and distribution; for government; in nuclear new-build; in renewable energy; and in sustainability as we work towards a carbon neutral 2050. We remain well placed for the future and have sight of a forward pipeline of opportunity that gives us confidence that the long term prospects for 2021/22 and beyond are good.

Transport and Industry had a difficult year because of the aforementioned conditions in civil aviation, but the prospects for the future look very strong with investment in sustainable rail and road travel continuing at pace.

Geographical presence

A central element of the company's strategy remains the development of operations close to our main client bases. We have not opened any significant new offices during 2020/21, indeed the COVID-19 pandemic is causing us to review our geographical footprint and we have already taken some steps by closing offices where the leases came to an end during 2020/21. These were either small offices or where we have two offices in close proximity, as in Dorking. We have started a consultation with staff on how the mix of home and office working might look in the future and the outcome of this work (due during 2021/22) will have a bearing on our future office footprint, both in terms of size of offices and their location.

Staff and management team

In our last report we described how we were gaining the benefits in terms of agility and dynamism and stronger market focus with our new operating model. This has continued to deliver during the pandemic as we have been able to support customers who were pleased to find a business capable of operating 'normally' in the face of these challenges.

My personal thanks go to the entire team for what can only be described as an outstanding performance during the year. We have supported our traditional customers and responded to calls from government for support in new areas relating to the pandemic response, whilst caring for each other and our families and loved ones. We have pulled together and worked as a team to minimise the impact that the pandemic has had on staff mental wellbeing by using all of the traditional and digital tools at our disposal. This has been recognised and appreciated by staff. As ever, we feel there is more to do, but we are starting from solid foundations. By the year-end permanent staff numbers had risen from 858 at the end of the prior year to 895 at the end of March 2021.

Business prospects and future developments

The prospects for our business look strong. We have a proven resilient business model that is serving customers who manage aspects of critical national infrastructure. They are demanding more support from us as a business, even in the most difficult times. The entrepreneurial spirit and agility that has been the bedrock of the business is strong, enabling us to capitalise on emerging opportunity whilst being continually mindful of the need to control commercial and technical risk. This has allowed staff to transfer skills between sectors and geographies to help other parts of the business develop. Whilst we haven't grown the turnover of the business this year we have enhanced the capabilities of many of our staff and we are able to support clients with a broader range of technical capability. Our philosophy remains to develop long-term, sustainable relationships with our clients, an approach that is increasingly yielding long-term income streams. The company will continue to invest in a balanced way to ensure that it is well positioned to develop key opportunities in its chosen markets.

Strategic report for the year ended 31 March 2021 (continued)

Principal risks and uncertainties

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

The key risks and uncertainties affecting the Company are considered to be related to overexposure to any one of our market sectors, our ability to deliver projects should a large number of staff fall ill with the COVID-19 virus, our ability to win and deliver work efficiently while staff are working remotely from their normal offices, the political and regulatory environment and the ability to recruit and retain high quality and appropriately experienced staff. The directors manage this risk by meeting on a regular basis to discuss these risks and review the mitigating actions that we have in place.

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

S172(1) statement and Stakeholder engagement

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed in the annual report of Babcock International Group PLC, which does not form part of this report.

The disclosure in the Babcock International Group PLC annual report considered all relevant factors for the Company, in particular the Company's engagement with its customers and employees.


The Company continually works to foster close working relationships with customers. We consider the development and maintenance of long-term relationships with key customers as vital to the ongoing health of the business, and we strive to build links with our customers at all levels up to the Board. In the past year the pandemic has disrupted some of these engagements (which would normally be face-to-face) but many have continued via digital means (Microsoft Teams), with our Business Managers continuing to report on customer feedback by project.

The Company engages with its employees in several ways. We have used the "Town Hall" meeting facility in Microsoft Teams to engage directly with all staff both in the UK and Australia. This engagement has been augmented by regular "Pulse" surveys (digital surveys seeking opinion of staff on key matters) so that we might better understand employees' viewpoints and priorities and act on the responses we receive. We have held digital versions of our annual staff conferences and enhanced the support for staff wellbeing during the year.

During the year, the Directors have maintained the regular drumbeat of meetings to review operational performance including our normal performance indicators of quotation output, hit rate, orders won, order backlog, project delivery performance and the pipeline of further contract opportunities.

On behalf of the board

N M McDougall
Director



29 July 2021

Registered number 02562870

Frazer-Nash Consultancy Limited

Directors' report for the year ended 31 March 2021

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

Dividends

A dividend of £nil was declared and paid in the year (2020: £11 million). There are no plans for a final dividend.

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Financial risk management

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

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

Price risk

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

Credit risk

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

Liquidity risk

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

Interest rate cash flow risk

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

Frazer-Nash Consultancy Limited

Directors' report for the year ended 31 March 2021 *(continued)*

Directors

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

R R Burge
D M Jones
N M McDougall
I S Urquhart
J W Howie (resigned 31 March 2021)

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

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.

Branches outside the UK

The Company has a branch operation in Australia, with offices in Melbourne, Adelaide, Canberra and Sydney.

Frazer-Nash Consultancy Limited

Directors' report for the year ended 31 March 2021 *(continued)*

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and 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 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 United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these 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.

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.

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.

Reappointment of auditors

PricewaterhouseCoopers LLP has now completed its final audit as external auditor. Deloitte LLP has been selected as the Company's external auditor for the financial year ending 31 March 2022 following shareholder approval at the Annual General Meeting.

Frazer-Nash Consultancy Limited

Directors' report for the year ended 31 March 2021 *(continued)*

Going Concern

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

The current economic conditions continue to create uncertainty around trading performance. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to be able to continue to operate for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

On behalf of the board



R R Burge

Director

29 July 2021

Independent auditors' report to the members of Frazer-Nash Consultancy Limited

Report on the audit of the financial statements

Opinion

In our opinion, Frazer-Nash Consultancy Limited's financial statements:

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

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2021; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

Frazer-Nash Consultancy Limited

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

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

Strategic report and Directors' report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to fraud and direct and indirect tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and potential management bias in the selection and application of significant accounting judgements and estimates. Audit procedures performed by the engagement team included:

- Evaluation of design effectiveness of management's controls to prevent and detect irregularities,
- Enquiry with management about known or suspected instances of non-compliance with laws and regulations and fraud,
- Review of legal expense account code to assess if there are any undisclosed litigation and claims,
- Identifying and testing the validity of journal entries, in particular any journal entries posted with unusual account combinations and journals posted by senior management,
- Reviewing minutes of meetings of management and the board of directors,
- Testing the assumptions and supporting documents over significant estimates.

Frazer-Nash Consultancy Limited

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Christopher Solomides (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Southampton

29 July 2021

Frazer-Nash Consultancy Limited

Income Statement

for the year ended 31 March 2021

	Note	2021 £000	2020 £000
Revenue	4	100,509	101,930
Cost of sales		<u>(70,217)</u>	<u>(69,308)</u>
Gross profit		30,292	32,622
Administrative expenses		<u>(16,760)</u>	<u>(15,551)</u>
Profit before interest and taxation	6	13,532	17,071
Finance costs	5	<u>(288)</u>	<u>(315)</u>
Profit before income tax		13,244	16,756
Income tax expense	10	<u>(216)</u>	<u>(3,161)</u>
Profit for the financial year		<u>13,028</u>	<u>13,595</u>

All of the above results derive from continuing operations.

Statement of Comprehensive Income

for the year ended 31 March 2021

	2021 £000	2020 £000
Profit for the financial year	<u>13,028</u>	<u>13,595</u>
Other comprehensive loss: <i>Items that may be subsequently reclassified to income statement:</i>		
Fair value adjustment of foreign exchange hedges	-	(14)
Total comprehensive income for the year	<u>13,028</u>	<u>13,581</u>

Frazer-Nash Consultancy Limited

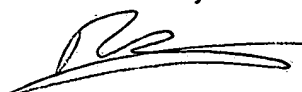
Balance Sheet

as at 31 March 2021

	Note	2021 £000	2020 £000
Non-current assets			
Intangible assets	11	2,601	3,848
Plant and equipment	12	1,758	1,849
Right-of-use assets	13	4,500	5,293
		<u>8,859</u>	<u>10,990</u>
Current assets			
Trade and other receivables	15	55,381	35,459
Cash and cash equivalents		15,650	18,402
		<u>71,031</u>	<u>53,861</u>
Current liabilities			
Trade and other payables	16	(44,105)	(41,366)
Lease liabilities	17	(1,091)	(2,145)
Other financial liabilities	18	-	(31)
Net current assets		<u>25,835</u>	<u>10,319</u>
Total assets less current liabilities			
Lease liabilities	17	(5,026)	(4,761)
Provisions	19	(92)	-
Net assets		<u>29,576</u>	<u>16,548</u>
Equity			
Called up share capital	22	216	216
Share premium		22	22
Other reserves		(1)	(1)
Retained earnings		29,339	16,311
Total shareholder funds		<u>29,576</u>	<u>16,548</u>

The notes on pages 15 to 39 are an integral part of these financial statements.

The financial statements on pages 12 to 39 were approved by the board of directors and signed on its behalf by:



R R Burge
Director

29 July 2021

Frazer-Nash Consultancy Limited**Statement of Changes in Equity**
for the year ended 31 March 2021

	Note	Called up share capital £000	Share premium £000	Other reserves £000	Retained earnings £000	Total sharehol- der funds £000
Balance at 1 April 2019		216	22	13	13,716	13,967
Profit for the year		-	-	-	13,595	13,595
Other comprehensive loss		-	-	(14)	-	(14)
Total comprehensive income for the year		-	-	(14)	13,595	13,581
Dividends paid	23	-	-	-	(11,000)	(11,000)
Balance at 31 March 2020		216	22	(1)	16,311	16,548
Profit for the year		-	-	-	13,028	13,028
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the year		-	-	-	13,028	13,028
Dividends paid		-	-	-	-	-
Balance at 31 March 2021		216	22	(1)	29,339	29,576

Frazer-Nash Consultancy Limited

Notes to the financial statements

1 General information

Frazer-Nash Consultancy Limited is a private company limited by shares which is incorporated and domiciled in the UK. The address of the registered Office is c/o Devonport Royal Dockyard Limited, Devonport, Plymouth, DEVON PL1 4SG.

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

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

The Company is a wholly owned subsidiary of Babcock Marine Holdings (UK) Limited and of its ultimate parent, Babcock International Group PLC. The Company has been unable to take the exemption by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements. However, the Company's subsidiaries are immaterial and so, in accordance with section 405 of the Companies Act 2006, no consolidation has been prepared.

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

- a) 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)
- b) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- c) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
- d) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- e) IAS 7, 'Statement of cash flows'
- f) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- g) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- h) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

Going Concern

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

The current economic conditions continue to create uncertainty around trading performance. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company has adequate resources to be able to continue to operate for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Adoption of new and revised standards

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

Revenue

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

(a) Performance obligations

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

(b) Allocation of contract price to performance obligations

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

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition

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

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

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

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

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

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge. Assessment of outcomes is in relation to separate performance obligations and include variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Judgements on contract variations and claims may consider, amongst other matters, the contract terms and conditions, previous experience with customers and the status of negotiations at the time judgements are made. Any expected loss on a contract is recognised immediately in the income statement.

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

Notes to the financial statements

2 Summary of significant accounting policies (continued)

Revenue (continued)

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

Intangible assets

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

a) Computer software

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 of between three and five years.

b) 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.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment (PPE) is shown at cost less subsequent depreciation and 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 year end on the Balance Sheet) at the following annual rates:

- Plant and equipment 6.6% to 33.3%

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

Investments

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

Financial assets and liabilities at amortised cost

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

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

Share based payments

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

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.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

Pensions costs and other post-retirement benefits

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

Lessee Accounting

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

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

Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

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

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

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

Frazer-Nash Consultancy Limited

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

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 warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

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

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

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

Derivative financial instruments

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

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

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

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

Dividend distribution

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

Finance costs

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

Notes to the financial statements

3 Critical accounting estimates and judgements

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

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

Revenue and profit recognition

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

Provisions

Management consider the need for dilapidations provisions on leased properties. These provisions require management's best estimate of the costs that will be incurred based on contractual requirements. The timing of cash flows and discount rates used to establish net present value of these obligations require management's judgement.

Useful economic lives of property, plant and equipment and intangible assets

The annual depreciation charge for the property, plant and equipment and intangibles is sensitive to changes in the estimated useful lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See notes 12 and 13 for the carrying amount of the property, plant and equipment, and note 2 for the useful economic lives of for each class of assets.

Development of intangible assets

The capitalisation of internally developed intangible assets has been carried out on the basis the assets will generate future economic benefits for the Company. The value capitalised requires management's best estimate of costs. These are formed by accurate recording of staff time and an appropriate percentage is used as a basis to allocate costs thereon.

Frazer-Nash Consultancy Limited

Notes to the financial statements

4 Revenue

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

	2021 £000	2020 £000
By area of activity:		
Provision of services	<u>100,509</u>	101,930
	2021 £000	2020 £000
By geographical area:		
United Kingdom	87,692	87,766
Europe	1,868	2,676
Rest of the world	<u>10,949</u>	11,488
	<u>100,509</u>	101,930

5 Finance income and costs

	2021 £000	2020 £000
Finance income:		
Bank interest	<u>7</u>	49
	<u>7</u>	49
Finance costs:		
IFRS 16 interest	<u>(295)</u>	(364)
Net finance costs	<u>(288)</u>	(315)

Frazer-Nash Consultancy Limited

Notes to the financial statements

6 Profit before interest and taxation

Profit before interest and taxation is stated after charging:

	2021	2020
	£000	£000
Depreciation of plant & equipment (note 12)	644	712
Right of use depreciation (note 13)	2,340	2,505
Amortisation of intangible assets (note 11)	856	231
Impairment of intangible assets (note 11)	400	-
Impairment of trade receivables	871	-
Operating lease charges – short term and low value leases	167	219
Foreign exchange (gains) / losses	(287)	372
Audit fees payable to the Company's auditors	31	24

Cost of sales for the year ended 31 March 2021 also includes research and development tax credits of £4,071k (2020: £2,040k). There were no non-audit fees payable to the Company's auditors (2020: none).

7 Staff costs

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

By activity:	2021	2020
	Number	Number
Direct	758	703
Indirect	114	120
	<u>872</u>	<u>823</u>

Their aggregate remuneration comprised:

	2021	2020
	£000	£000
Wages and salaries	52,024	48,011
Social security costs	5,424	4,964
Other pension costs (note 26)	3,083	2,895
	<u>60,531</u>	<u>55,870</u>

Included in wages and salaries is a total expense of share-based payments of £35k (2020: £56k) all of which related to equity-settled share-based payment transactions (note 9).

Frazer-Nash Consultancy Limited

Notes to the financial statements

8 Directors' remuneration

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

	2021	2020
	£000	£000
Emoluments (including benefits in-kind)	592	569
Gains on share options exercised	-	78
	<u>592</u>	<u>647</u>

During the year no (2020: one) director remunerated by Frazer-Nash Consultancy Limited exercised share options under long term incentive plans and one (2020: one) director was entitled to receive share options under long term incentive plans.

Except for two (2020: two) directors, all of the directors of the Company are remunerated by other 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 Group companies.

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

	2021	2020
	£000	£000
Emoluments (including benefits in-kind)	356	323
Gains on share options exercised	-	78
	<u>356</u>	<u>401</u>

In 2021 no directors exercised shares under long term incentive plans (2020: the highest paid director exercised shares under long term incentive plans).

Frazer-Nash Consultancy Limited

Notes to the financial statements

9 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Frazer-Nash Consultancy Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the annual report of Babcock International Group PLC.

During the year the total charge relating to employee share-based payment plans was £35k (2020: £56k) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £28k (2020: £45k).

For the Group-wide schemes, the fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs and DBP¹

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2020 PSP	695,458	350.0	19.0%	6.0	100%	–	305.2	55%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100%	–	350.0	55%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100%	137.9	305.2	55%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100%	–	289.0	55%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100%	–	289.0	55%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100%	–	284.2	55%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100%	–	284.2	55%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100%	–	472.8	45%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100%	–	472.8	45%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years. The holders of all awards receive dividends. PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE. For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR. There are no performance conditions attached to the DBP. 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.

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

Frazer-Nash Consultancy Limited

Notes to the financial statements

9 Share based payments (continued)

Company employees are able to participate in the Babcock Employee Share Plan, operated by the Group, which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 180,175 matching shares (2020: 104,756 matching shares) at a cost of £0.5 million (2020: £0.5 million).

Company employees are also able to participate in the Babcock Employee Share Plan International, operated by the Group, which reflects the structure of the UK Plan. During the year 5,000 matching shares were purchased by the Group on the open market (2020: 1,000 matching shares) and 1,193 matching shares vested (2020: 713 matching shares) leaving a balance of 5,012 matching shares (2020: 1,205 matching shares).

A reconciliation of PSP and DBMP movements for the Group-wide schemes is shown below:

	2021 Number '000	2020 Number 000
Outstanding at 1 April	9,527	7,748
Granted	4,593	4,797
Exercised	(257)	(654)
Lapsed	(3,425)	(2,364)
Outstanding at 31 March	10,438	9,527
Exercisable at 31 March	31	31

The weighted average share price for awards exercised across the Group during the year was 301.8p per share (2020: 497.7p per share).

Frazer-Nash Consultancy Limited

Notes to the financial statements

10 Income tax expense

Tax expense included in income statement

	2021 £000	2020 £000
Current tax:		
UK Corporation tax on profits for the year	-	3,488
Overseas tax on profits for the year	71	-
Adjustment in respect of prior year	-	-
Current tax charge for the year	<u>71</u>	<u>3,488</u>
Deferred tax:		
Origination and reversal of temporary differences	(70)	(284)
Adjustment in respect of prior years	215	(8)
Impact of change in UK tax rate	-	(35)
Total deferred tax charge / (credit) (note 21)	<u>145</u>	<u>(327)</u>
Tax on profit	<u>216</u>	<u>3,161</u>

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

	2021 £000	2020 £000
Profit before taxation	<u>13,244</u>	<u>16,756</u>
Profit multiplied by standard UK corporation tax rate of 19% (2020: 19%)	2,516	3,183
Effects of:		
Expenses not deductible for tax purposes	(232)	21
Adjustments in respect of deferred tax for prior years	214	(8)
Overseas tax on profits for the year	71	-
Group relief for nil consideration	(2,353)	-
Impact of change in UK tax rate	-	(35)
Total tax charge for the year	<u>216</u>	<u>3,161</u>

In the Spring Budget 2021, the UK Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. At the balance sheet date, the proposal to increase the rate to 25% had not been substantively enacted, substantive enactment occurred on 24 May 2021, therefore its effects are not included in these financial statements. The overall effect of the change, had it been substantively enacted by the balance sheet date, would not have had a material impact on either the tax expense for the period or the deferred tax asset.

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Notes to the financial statements

11 Intangible assets

	Internally generated software £000	Other software £000	Total £000
Cost			
At 1 April 2020	3,447	2,149	5,596
Additions	18	(9)	9
Disposals	-	(572)	(572)
At 31 March 2021	3,465	1,568	5,033
Accumulated amortisation and impairment			
At 1 April 2020	26	1,722	1,748
Charge for the year	693	163	856
Impairment	400	-	400
Disposals	-	(572)	(572)
At 31 March 2021	1,119	1,313	2,432
Net book value			
At 31 March 2021	2,346	255	2,601
At 31 March 2020	3,421	427	3,848

Intangible assets amortisation and impairment is recorded in administrative expenses in the income statement. During the year internally generated software was impaired by £400k. The impairment is due to the identification of additional work required to ensure the software meets the original specifications.

Frazer-Nash Consultancy Limited

Notes to the financial statements

12 Plant & equipment

	Plant and equipment £000
Cost	
At 1 April 2020	6,033
Additions	604
Disposals	(2,129)
At 31 March 2021	4,508
Accumulated depreciation	
At 1 April 2020	4,184
Charge for the year	644
Disposals	(2,078)
At 31 March 2021	2,750
Net book value	
At 31 March 2021	1,758
At 31 March 2020	1,849

13 Right of use assets

	Property £000	Plant and Equipment £000	Total £000
Cost			
At 1 April 2020	9,413	459	9,872
Additions	1,379	168	1,547
Disposals	(1,843)	(143)	(1,986)
At 31 March 2021	8,949	484	9,433
Accumulated depreciation			
At 1 April 2020	4,390	189	4,579
Charge for the year	2,118	222	2,340
Disposals	(1,843)	(143)	(1,986)
At 31 March 2021	4,665	268	4,933
Net book value			
At 31 March 2021	4,284	216	4,500
At 31 March 2020	5,023	270	5,293

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Notes to the financial statements

14 Investments in subsidiaries

	2021 £	2020 £
Shares in group undertakings		
Cost	<u>3</u>	<u>3</u>

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

Company Name	Registered Office	Interest	Direct %	Ultimate%
FNC Limited	c/o Devonport Royal Dockyard Limited, Devonport, Plymouth, DEVON PL1 4SG	100% Ordinary A shares	100%	100%
Frazer-Nash Consultancy (Australia) PTY LTD	Level 8 99 Gawler Place Adelaide SA 5000	100% Ordinary A shares	100%	100%
Frazer-Nash Consultancy LLC	c/o Corporation Service Company, 251 Little Falls Dr., Wilmington, DE 19808	100% Class A shares and 100% Class B shares	100%	100%

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Notes to the financial statements

15 Trade and other receivables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade receivables	16,660	17,142
Amounts due from customers for contract work	7,518	7,520
Amounts owed by group undertakings	28,500	8,059
Deferred tax asset (note 21)	469	614
Prepayments and accrued income	2,234	2,124
	<u>55,381</u>	<u>35,459</u>

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

There are three major loans (2020: two) to Group companies totalling £23,630k (2020: £3,356k) which are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £871k (2020: £nil).

The total provision held against trade receivables and contract assets is immaterial. No further disclosures relating to impairment provisions have been included as these are not considered material.

Trade and other receivables are stated at amortised cost. Their carrying amounts are considered to be the same as their fair values, due to their short-term nature.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

	Amounts due from customers for contract work £000	Total £000
At 1 April 2020	<u>7,520</u>	<u>7,520</u>
Transfers from contract assets recognised at the beginning of the year to receivables	(7,520)	(7,520)
Increase due to work done not transferred from contract assets	7,518	7,518
At 31 March 2021	<u>7,518</u>	<u>7,518</u>

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Notes to the financial statements

16 Trade and other payables

	2021 £000	2020 £000
Amounts falling due within one year:		
Trade creditors	1,155	2,182
Amounts owed to parent and group undertakings	13,563	13,542
Taxation and social security	10,670	5,581
Corporation tax payable	3,896	7,916
Payments received on account	5,095	3,602
Accruals and deferred income	9,726	8,543
	44,105	41,366

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand. Corporation tax payable is due to another Group company rather than HMRC, as the Group makes payment to HMRC under a Group Payment Arrangement.

The Company has access to the Babcock International Group PLC overdraft facility.

Trade and other payables are stated at amortised cost. Their carrying amounts are considered to be the same as their fair values, due to their short-term nature.

	Contract cost accrual £000	Advance payments £000	Total £000
At 1 April 2020	2,254	3,602	5,856
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(3,602)	(3,602)
Increase due to cash received, excluding amounts recognised as revenue	-	5,095	5,095
Amounts utilised	(2,254)	-	(2,254)
Amounts accrued	2,700	-	2,700
At 31 March 2021	2,700	5,095	7,795

	Contract cost accrual £000	Advance payments £000	Total £000
At 1 April 2019	1,639	4,444	6,083
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(4,444)	(4,444)
Increase due to cash received, excluding amounts recognised as revenue	-	3,602	3,602
Amounts utilised	(1,639)	-	(1,639)
Amounts accrued	2,254	-	2,254
At 31 March 2020	2,254	3,602	5,856

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Notes to the financial statements

17 Lease liabilities

The Company leases various offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The Company also leases plant and equipment under non-cancellable operating leases.

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

	2021 £000	2020 £000
At 1 April	6,906	8,946
Additions	1,525	155
Disposals and foreign exchange movements	(6)	(21)
Interest charged	295	364
Payments	(2,603)	(2,538)
At 31 March	6,117	6,906

Discounted future minimum lease payments are as follows:

	2021 £000	2020 £000
Within one year	1,091	2,145
In more than one year, but not more than five years	5,026	3,769
After five years	-	992
Carrying value of liability	6,117	6,906

The Company had total cash outflows for leases of £2,603k for the year ended 31 March 2021 (2020: £2,538k).

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Notes to the financial statements

18 Other financial liabilities

Included in other financial liabilities are the following derivative financial instruments at fair value:

	31 March 2021		31 March 2020	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Forward FX contracts – fair value hedges	-	-	-	(31)
Total	-	-	-	(31)
Current portion	-	-	-	(31)

The Company uses forward foreign exchange contracts denominated in Euros and US Dollars to manage exposure to fluctuations in foreign currency exchange rates.

19 Provisions for liabilities

The Company had the following provisions during the year:

	Dilapidations £000
At 1 April 2020	-
Charged to the Income Statement	92
At 31 March 2021	92

Dilapidations provisions relate to certain office buildings leased by the Company, where there is a requirement to reinstate the property to its prior condition.

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Notes to the financial statements

20 Financial instruments

The Company holds the following financial instruments:

	2021	2020
	£000	£000
Financial assets		
Financial assets at amortised cost		
Trade receivables (note 15)	16,660	17,142
Amounts due from customers for contract work (note 15)	7,518	7,520
Other financial assets at amortised cost	28,587	8,153
Cash and cash equivalents	15,650	18,402
	<u>68,415</u>	<u>51,217</u>
	2021	2020
	£000	£000
Financial liabilities		
Liabilities at amortised cost		
Trade and other payables	24,429	24,248
Lease liabilities (note 17)	6,117	6,906
Derivative financial instruments (note 18)	-	31
	<u>30,546</u>	<u>31,185</u>

The Company's exposure to various risks associated with the financial instruments is discussed in the Directors' report on page 5 and below.

Credit risk

The Company's customers are mainly from government, government-backed institutions or blue chip corporations and as such credit risk is considered small. Trade receivables and contract assets are stated after provisions for impairment (see note 15).

Liquidity risk

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

The contractual undiscounted cashflows of the Company's financial liabilities are equal to their carrying balances.

Interest rate risk

The Company has no material exposure to interest rate risk.

Foreign currency risk

The functional and presentational currency of the Company is Sterling. A large majority of the Company's revenue and expenses are denominated in Sterling and as such foreign exchange risk is considered small. However the Company is exposed to movements in foreign currency exchange rates in respect of foreign currency denominated transactions and in respect of the translation of the net assets of its branch operation in Australia.

The largest foreign exchange exposure of the Company results from exposure of GBP to Australian Dollars, being £1.5m.

The pre-tax effect on profit and equity if the rates moved up or down by an appropriate percentage volatility (10% for Sterling and Australian Dollars), assuming all other variables remained constant, would be immaterial.

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Notes to the financial statements

21 Deferred taxation

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

Deferred tax asset	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2019:	287	-	287
- Credited to the income statement	327	-	327
At 1 April 2020:	614	-	614
- Charged to the income statement	(145)	-	(145)
At 31 March 2021:	469	-	469

22 Share capital

	2021 £000	2020 £000
Allotted, called up and fully paid		
115,671 ordinary shares of £1 each (2020: 115,671)	116	116
50,000 'A' preference shares of £1 each (2020: 50,000)	50	50
50,000 'B' preference shares of £1 each (2020: 50,000)	50	50
	<u>216</u>	<u>216</u>

Out of the profits available for distribution, A preference shareholders are entitled to a dividend equal in amount to the amount of loan principal (if any) repaid by Babcock (UK) Holdings Limited to the Company under the 2009 loan agreement, and B preference shareholders are entitled to a dividend equal in amount to the amount of loan principal (if any) repaid by Babcock (UK) Holdings Limited to the Company under the 2010 loan agreement. The order of capital rights is: A preference share dividends due, then B preference share dividends due, then ordinary, A and B in relation to amounts paid up on shares.

23 Dividends

Dividends declared and paid were £nil (2020: £11 million), this is equivalent to £nil per ordinary share (2020: £95.10 per ordinary share). There are no plans for a final dividend.

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Notes to the financial statements

24 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2020: £nil).

b) Bank guarantees

A guarantee is in place with Australia and New Zealand Bank group Limited for an amount up to \$AUD 182,243 concerning rental payments due to Dexus CPA PTY Ltd.

A guarantee is in place with Australia and New Zealand Bank group Limited for an amount up to \$AUD 209,809.88 concerning rental payments due to Gawler Investment Holdings Pty Ltd.

25 Related party disclosures

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

Transactions with key management personnel are disclosed in note 8.

Transactions entered into and trading balances outstanding at 31 March 2021 are as follows:

	Sales to related party £000	Amounts owed by related party £000
Naval Ship Management (Australia) Pty Ltd (joint venture of Babcock International Group PLC)	69	-

Transactions entered into and trading balances outstanding at 31 March 2020 are as follows:

	Sales to related party £000	Amounts owed by related party £000
Dounreay Site Restoration Limited (joint venture of Babcock International Group PLC)	1	-

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

26 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to defined contribution schemes in respect of a number of its employees.

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Notes to the financial statements

27 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine Holdings (UK) Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is 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