



BABCOCK (NZ) LTD

**ANNUAL REPORT
FOR THE
YEAR ENDED 31 MARCH 2021**



BABCOCK (NZ) LTD
ANNUAL FINANCIAL STATEMENTS
YEAR ENDED 31 MARCH 2021

CONTENTS	Page
Directors' Declaration	2 - 3
Financial Statements	
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Financial Statements	8 - 29
Independent Auditors' Report	30

Babcock (NZ) Ltd is a Company limited by shares, incorporated and domiciled in New Zealand.

Its registered office and principal place of business is:

Babcock (NZ) Ltd
HMNZ Dockyard
Devonport, Auckland 0744

Directors' Declaration

The Board of Directors are pleased to present the annual report of Babcock (NZ) Limited, incorporating the financial statements and independent auditors' report, for the year ended 31 March 2021.

The Directors comprises of David Ruff and Andrew Cridland with Christopher Saxby resigning on 5 July 2021.

In the opinion of the Directors of Babcock (NZ) Limited, the financial statements and notes, on pages 4 to 29:

- comply with New Zealand generally accepted accounting practice and give a true and fair view of the financial position of the Babcock (NZ) Group (incorporating Marine Industrial Design Limited) as at 31 March 2021 and the results of operations for the year ended on that date;
- have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

The Directors believe that proper accounting records have been kept which enable, with reasonable accuracy, the determination of the financial position of the Babcock (NZ) Group and facilitate compliance of the financial statements with the Financial Reporting Act 2013.

The Directors consider that they have taken adequate steps to safeguard the assets of the Babcock NZ Group, and to prevent and detect fraud and other irregularities. Internal control procedures are also considered to be sufficient to provide reasonable assurance as to the integrity and reliability of the financial statements.

With the unanimous agreement of the shareholder, the Babcock (NZ) Group has taken advantage of the reporting concessions available to it under Section 211 (3) of the Companies Act 1993.

The annual report and the financial statements presented on pages 4 to 29 are signed for and on behalf of the Board and were authorised for issue on the date below.



Andrew Cridland

Director



David Ruff

Director

22 October 2021

Company Directory

Nature of Business Engineering and Maintenance Services

Registered Office HMNZ Dockyard
Devonport, Auckland 0744
Telephone: 09 446-1999

Incorporation Number 1513132

Directors David Ruff
Andrew Cridland

Directors who have resigned since 31st March 2021

Chris Saxby (resigned on 5 July 2021)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year Ended 31 March 2021 \$'000	Year Ended 31 March 2020 \$'000
Continuing operations			
Revenue from contracts with customers	3(a)	105,904	81,945
Cost of sales		<u>(93,889)</u>	<u>(73,902)</u>
Gross Profit		12,015	8,043
Other expenses		(2,202)	(759)
Other income		<u>180</u>	<u>771</u>
Profit / (Loss) before share of joint venture net profit		9,993	8,055
Operating Profit	3(c)	9,993	8,055
Net Finance income	3(d)	<u>624</u>	<u>3,501</u>
Profit / (Loss) Before Income Tax		10,617	11,556
Tax benefit / (expense)	6	(2,981)	(3,258)
Net Profit / (Loss) for the Year		<u>7,636</u>	<u>8,298</u>
Other Comprehensive Profit			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the value of cash flow hedges		<u>(6)</u>	<u>-</u>
Other Comprehensive Loss for the year, net of tax		<u>(6)</u>	<u>-</u>
Total Comprehensive Loss for the year attributable to owners of Babcock (NZ) Ltd		<u>7,630</u>	<u>8,298</u>

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Notes	31 March 2021 \$'000	31 March 2020 \$'000
Cash and cash equivalent	7	5,709	7,817
Trade and other receivables	8	24,619	16,804
Contract assets	3(b)	28	345
Inventories	9	684	519
Total Current Assets		31,040	25,485
Property, plant and equipment	11	1,937	1,768
Intangibles	12	482	717
Right-of-use assets	13	1,414	2,955
Goodwill		921	921
Deferred tax assets	6	1,863	1,451
Total Non-current Assets		6,617	7,812
TOTAL ASSETS		37,657	33,297
Trade and other payables	14	15,053	13,894
Contract liabilities	3(b)	14,316	3,139
Deferred Revenue		1,078	1,921
Financial derivatives	10	6	-
Provisions	15	2,730	2,120
Lease liabilities	13	1,447	1,700
Total Current Liabilities		34,630	22,774
Lease liabilities	13	78	1,412
Provisions	15	980	987
Total Non-current Liabilities		1,058	2,399
TOTAL LIABILITIES		35,688	25,173
NET ASSETS		1,969	8,124
Equity share capital	16	2,000	2,000
Reserves	16	(6)	-
Retained earnings / (Accumulated losses)	16	(25)	6,124
TOTAL SURPLUS IN EQUITY		1,969	8,124

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2021

	Ordinary share capital \$'000	Cash flow hedge reserve \$'000	Retained earnings \$'000	TOTAL EQUITY \$'000
Balance at 31 March 2019	2,000	-	17,657	19,657
Profit for the period	-	-	8,298	8,298
Lease transition adjustments	-	-	(156)	(156)
Dividend paid	-	-	(19,675)	(19,675)
Other comprehensive profit / (loss)	-	-	-	-
Total Comprehensive Profit / (Loss)	-	-	(11,533)	(11,533)
Balance at 31 March 2020	2,000	-	6,124	8,124
Profit for the period	-	-	7,636	7,636
Other comprehensive profit / (loss)	-	(6)	-	(6)
Dividends paid	-	-	(13,785)	(13,785)
Total Comprehensive Profit / (Loss)	-	(6)	(6,149)	(6,155)
Balance at 31 March 2021	2,000	(6)	(25)	1,969

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Notes	Year Ended 31 March 2021 \$'000	Year Ended 31 March 2020 \$'000
Receipts from customers and related parties		135,991	88,787
Payments to suppliers, employees and related parties		(108,335)	(79,424)
Income tax paid		(4,748)	(1,672)
Net Cash inflow from Operating Activities	7	22,908	7,691
Purchases of property, plant and equipment		(755)	(502)
Proceeds from sale of property, plant and equipment		21	-
Purchases of intangibles		(28)	(145)
Amounts received from / (paid to) from related parties		(9,471)	16,081
Net Cash inflow / (outflow) from Investing Activities		(10,233)	(4,241)
Principal repayments on leases	12	(1,623)	(1,557)
Interest expense on leases	12	(121)	(175)
Interest received		746	3,676
Dividends paid		(13,785)	(19,675)
Net Cash outflow from Financing Activities		(14,783)	(17,731)
Decrease in Cash and Cash Equivalents		(2,108)	5,394
Cash and cash equivalents at the beginning of the year		7,817	2,423
Effects of exchange rate changes on cash and cash equivalents		-	-
Cash and Cash Equivalents at the end of the year	7	5,709	7,817

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. GENERAL INFORMATION

Babcock (NZ) Limited (the Company) is a company incorporated and domiciled in New Zealand, registered under the Companies Act 1993.

The Company operates a marine engineering and maintenance support facility located in Auckland, within the Devonport Naval Base.

Under a contract with the New Zealand Defence Force, the Company carries out maintenance and upgrades to the Royal New Zealand Navy Fleet (RNZN). On 30 June 2019 this contract was extended to 28 February 2022. The scope of work incorporates logistics and engineering solutions in support of the RNZN.

In addition, it undertakes repairs and maintenance services to a wide variety of commercial vessels. The Company operates one of the two dry docks available in New Zealand.

The Babcock (NZ) Group incorporates Marine Industrial Design Limited, a marine engineering design and consultancy company. This company offers an extensive range of professional engineering and design services and ground support vehicle maintenance.

The financial statements present the Babcock (NZ) Group consolidated financial statements for the year ended 31 March 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

The consolidated financial statements of the Babcock (NZ) Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (GAAP). Babcock (NZ) Group is a for-profit entity for the purposes of complying with GAAP. The consolidated financial statements comply with New Zealand equivalents to International Financial Reporting Standards Reduced Disclosure Regime ('NZ IFRS RDR'), other New Zealand accounting standards and authoritative notices that are applicable to entities that apply NZ IFRS RDR. They comply with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under IFRS. Babcock (NZ) Group is eligible and has elected to report in accordance with Tier 2 for-profit accounting standards, NZ IFRS RDR on the basis that the Babcock (NZ) Group has no public accountability and is not a large for-profit public sector entity. In applying NZ IFRS RDR, the Group has applied a number of disclosure concessions.

The financial statements have been prepared on a going concern basis as the Company is able to pay its debts as and when they become due and payable.

Going Concern

As at 31 March 2021, the net current liability of \$3,190,894 includes contract liabilities of \$14,315,587 largely related to the Dockyard Management Contract, which is expected to be discharged over the remainder of the contract as work is performed and associated revenue generated. There are reasonable grounds to believe that the company will be able to pay its debts as and when they fall due.

The financial statements have been prepared in accordance with the historical cost convention, except for certain assets and liabilities, which as noted, are at fair value.

Critical accounting estimates and judgement

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. 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 the relevant accounting policies below.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

b. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The Company financial statements are presented in New Zealand dollars, which is Babcock (NZ) Ltd's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when they are deferred in equity as qualifying cash flow hedges.

c. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

d. Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

e. Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 7, 30 or 45 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

The Company applies the simplified approach to recognising the expected credit losses for all trade receivables. The amount of the provision is recognised in the income statement. When a trade receivable for which a loss allowance provision has been recognised become uncollectable in a subsequent period, it is written off against the provision account. Subsequent recoveries of amounts previously written off are credited against the income statement.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise of direct materials and are assigned to individual items of inventory on the basis of first-in, first-out. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

g. Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight line method over their estimated useful lives as follows;

Leasehold improvements	10%	Tools	10%
Furniture and fittings	20%	Motor vehicles	20%
Plant and equipment	10%	Computers and equipment	25%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Comprehensive Income. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Impairment losses are recognised in the Statement of Comprehensive Income in the Other Expenses line item.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its continued use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the period the asset is derecognised.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

h. Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into, and they are subsequently re-measured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges)
- hedges of a particular risk associated with the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

At inception of the hedge relationship, the Company documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Company documents its risk management objective and strategy for undertaking its hedge transactions. The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 10. Movements in the hedging reserve in shareholders' equity are shown in note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Cash flow hedge that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Where option contracts are used to hedge forecast transactions, the group designates only the intrinsic value of the options as the hedging instrument. Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).
- The gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

The company does not have any derivatives or hedge activities that do not qualify for hedge accounting.

i. Intangible assets

Intangible assets are carried at purchase and/or production cost, including directly related expenses allocated to them when preparing the asset for operations and net of accumulated amortisation and any impairments of value. Amortisation begins when the asset is available for use and is calculated using the straight line method over a 4 year period.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

j. Employee entitlements

i. Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for current employee benefits in the Statement of Financial Position. All other short-term employee benefit obligations are presented as payables.

ii. Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

k. Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is possible that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and tax liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

l. Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

m. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

n. Trade and other payables

These amounts represent liabilities for goods and services provided to the Company prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

o. Contributed equity

Ordinary and preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

p. NZ IFRS 15 Revenue from contracts with customers

Provision of engineering and consulting services and sale of goods

The company provides engineering design, implementation and support services under fixed-price and variable-price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. This is determined based on the costs incurred relative to the total costs.

Some contracts include multiple deliverables, such as the sale of goods and related installation or servicing. However, the installation is simple, does not include an integration service and could be performed by another party. It is therefore accounted for as a separate performance obligation. Where the contracts include multiple performance obligations, the transaction price will be allocated to each performance obligation based on the determined stand-alone selling prices. Where these are not directly observable, they are estimated based on expected cost-plus margin. If contracts include the installation of goods provided, or in circumstances where the transaction only includes a sale of goods, revenue for the goods provided is recognised at a point in time when the goods are delivered, the legal title has passed, and the customer has accepted the goods.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

3. REVENUE AND EXPENSES

	31 March 2021 \$'000	31 March 2020 \$'000
(a) Revenue from contracts with customers		
Rendering of services	105,904	81,945
Sale of goods		
	105,904	81,945
Timing of revenue recognition;		
At a point in time	461	672
Over time	105,443	81,273
	105,904	81,945
(b) Assets and liabilities related to contracts with customers		
Amounts due from customers for contract work	28	345
Total contract assets	28	345
Deferred contract costs	1,079	1,921
Total contract costs - non current	1,079	1,921
Amounts due to customers for contract work	14,316	3,139
Total contract liabilities	14,316	3,139

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

(c) Operating profit

Operating profit includes:

Other employee benefits		32,957	27,304
Depreciation of property, plant and equipment	11	585	689
Amortisation of intangibles	12	244	316
Depreciation on right-of-use assets - other	13	1,579	1,558
Proposal and business development expenses		(263)	108
Office expenses		151	184
Travel, subsistence and secondment costs		24	233
Management support charges		2,367	571
Communications		167	178
Facilities		3,172	1,969
Audit, tax, advisory and legal		359	376
Insurance		283	229
Other Expenses		7,282	6,617

31 March 2021
\$'000

31 March 2020
\$'000

(d) Net finance costs

Interest income	(810)	(3,747)
Interest expense - leases	122	175
Financial charges	64	71
	(624)	(3,501)

4. AUDITORS' REMUNERATION

During the year the following fees were paid or payable for services provided by the auditors for:

	31 March 2021 \$'000	31 March 2020 \$'000
Audit of the financial statements	61	58
	61	58

5. KEY MANAGEMENT PERSONNEL DISCLOSURES

The remuneration provided to key management personnel falls into the following categories:

	31 March 2021 \$'000	31 March 2020 \$'000
Salary and fees	1,673	1,659
Superannuation	36	29
	1,709	1,688

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

6. INCOME TAX

Major components of income tax expense for the years ended 31 March 2021 and 31 March 2020 are:

	31 March 2021 \$'000	31 March 2020 \$'000
Current income tax		
Current income tax expense / (benefit)	3,391	3,476
Adjustments in respect of current income tax of previous years	2	7
	<u>3,393</u>	<u>3,483</u>
Deferred income tax		
Relating to origination and reversal of temporary differences	(412)	(225)
Adjustments in respect of deferred tax from previous years	-	-
	<u>2,981</u>	<u>3,258</u>

A reconciliation of income tax benefit applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 31 March 2021 and 31 March 2020 is as follows:

Accounting profit / (loss) before income tax	<u>10,617</u>	<u>11,556</u>
Tax at the New Zealand tax rate of 28% (2020/21: 28%)	2,972	3,236
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment expenses	6	15
Prior year adjustments	3	7
Income tax expense / (benefit) reported in the Statement of Comprehensive Income	<u>2,981</u>	<u>3,258</u>
<i>Effective rate</i>	28%	28%

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Deferred income tax

Deferred income tax at balance date relates to the following:

	31 March 2021 \$'000	31 March 2020 \$'000
<i>Deferred income tax liabilities</i>		
Property, plant & equipment	-	1
Right-of-use assets	13	-
	<u>13</u>	<u>1</u>
<i>Deferred income tax assets</i>		
Unearned income	121	-
Inventory	73	71
Property, plant and equipment	93	95
Trade Creditors	1	1
Provisions	1,588	1,284
Lease liabilities	-	1
	<u>1,876</u>	<u>1,452</u>
Net deferred income tax assets	<u><u>1,863</u></u>	<u><u>1,451</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

7. CASH AND CASH EQUIVALENTS

	31 March 2021 \$'000	31 March 2020 \$'000
(a) Reconciliation of the operating profit after tax to the net cash flows from operating activities		
Net profit/(loss) for the year	7,635	8,298
<i>Adjustments for:</i>		
Depreciation on property, plant and equipment	585	689
Depreciation on right-of-use assets	1,577	1,558
Amortisation of intangible assets	244	316
Interest expense	(624)	(3,501)
<i>Changes in assets and liabilities:</i>		
Decrease in trade and other receivables	1,690	(1,437)
(Increase) / Decrease in contract assets	316	(345)
(Increase) / Decrease in inventories	(165)	194
(Increase) in deferred income tax asset	(412)	(2,914)
Increase / (Decrease) in trade and other payables	1,126	4,854
Increase / (Decrease) in contract liabilities	10,334	(225)
Increase / (Decrease) in provisions	602	204
Cash inflow from operating activities	22,908	7,691
(b) Reconciliation of Cash		
Cash balance comprises of:		
Cash and Cash equivalents	5,709	7,817
	5,709	7,817

(c) Facilities

The Company has an overdraft facility of \$2,500,000 (2019/20: \$2,500,000) of which \$0 (2019/20: \$0) was used at year end. The facility is fully backed by a guarantee provided by Babcock International Group Plc.

8. TRADE AND OTHER RECEIVABLES

	31 March 2021 \$'000	31 March 2020 \$'000
Trade receivables	1,521	3,211
Amounts owed by related parties	23,013	13,508
Prepayments	85	77
Other Debtors	-	8
	24,619	16,804

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

9. INVENTORIES

	31 March 2021 \$'000	31 March 2020 \$'000
Work in progress	217	225
Finished goods - at cost	467	294
	<u>684</u>	<u>519</u>

10. FINANCIAL DERIVATIVES

	31 March 2021 \$'000	31 March 2020 \$'000
Current assets		
Forward foreign currency contracts	-	-
Non-current assets		
Forward foreign currency contracts	-	-
Total assets	<u>-</u>	<u>-</u>
Current liabilities		
Forward foreign currency contracts	(6)	-
Non-current liabilities		
Forward foreign currency contracts	-	-
Total liabilities	<u>(6)</u>	<u>-</u>

In accordance with the company's hedging strategy, some lease liabilities are also designated as hedging instruments. Refer note 13.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

11. PROPERTY, PLANT & EQUIPMENT

	Land and Buildings \$'000	Plant and Equipment \$'000	Motor Vehicles \$'000	TOTAL \$'000
Cost:				
<i>at 31 March 2019</i>	356	9,135	453	9,944
Additions	14	452	36	502
Disposals	-	(4)	-	(4)
<i>at 31 March 2020</i>	370	9,583	489	10,442
Additions	-	775	-	775
Disposals	-	(73)	-	(73)
<i>at 31 March 2021</i>	370	10,285	489	11,144
Accumulated Depreciation:				
<i>at 31 March 2019</i>	(244)	(7,388)	(357)	(7,989)
Depreciation for the year	(28)	(611)	(50)	(689)
Disposed during the year	-	4	-	4
<i>at 31 March 2020</i>	(272)	(7,995)	(407)	(8,674)
Depreciation for the year	(19)	(526)	(40)	(585)
Disposed during the year	-	52	-	52
<i>at 31 March 2021</i>	(291)	(8,469)	(447)	(9,207)
Impairment:				
<i>at 31 March 2019</i>	-	-	-	-
Impairment for the year	-	-	-	-
<i>at 31 March 2020</i>	-	-	-	-
Impairment for the year	-	-	-	-
<i>at 31 March 2021</i>	-	-	-	-
Net book value at 31 March 2021	79	1,816	42	1,937
Net book value at 31 March 2020	98	1,588	82	1,768

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

12. INTANGIBLES

	TOTAL \$'000
Cost:	
<i>at 31 March 2019</i>	1,866
Additions	145
Disposals	-
<i>at 31 March 2020</i>	<u>2,011</u>
Additions	28
Disposal	(20)
<i>at 31 March 2021</i>	<u><u>2,019</u></u>
Accumulated Amortisation	
<i>at 31 March 2019</i>	(978)
Amortisation for the year	(316)
<i>at 31 March 2020</i>	<u>(1,294)</u>
Amortisation for the year	(244)
Disposed during the year	-
<i>at 31 March 2021</i>	<u><u>(1,538)</u></u>
Net book value at 31 March 2021	<u><u>482</u></u>
Net book value at 31 March 2020	<u><u>717</u></u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

13. LEASES

(i) Amounts recognised in the balance sheet

	31 March 2021 \$000	31 March 2020 \$000
Right-of-use assets		
Property	1,278	2,812
Plant and Equipment	136	143
	<u>1,414</u>	<u>2,955</u>

Additions to the right-of-use assets during the 2021 financial year were \$175,176.

Lease liabilities

Current	1,447	1,700
Non-current	78	1,412
	<u>1,525</u>	<u>3,112</u>

Future lease payments in relation to lease liabilities as at period end are as follows:

Within one year	1,570	1,709
Later than one year but not later than five years	21	1,556
Later than five years	-	-
	<u>1,591</u>	<u>3,265</u>

(ii) Amounts recognised in the profit or loss

	31 March 2021 \$000	31 March 2020 \$000
Depreciation charge right-of-use assets		
Property	(1,534)	(1,526)
Plant and Equipment	(45)	(32)
	<u>(1,579)</u>	<u>(1,558)</u>
Interest expense (included in finance cost)	(121)	(175)
Expense relating to short-term leases (included in cost of goods sold and administrative expenses)	-	-
Expenses relating to variable lease payments not included in lease liabilities (included in administrative expenses)	(75)	(47)

Total cash outflow for leases in 2021 was \$1,717,932.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

(iii) The group's leasing activities and how these are accounted for

The Group leases the dockyard facilities and vehicles. Vehicle and equipment rental contracts are typically made for fixed periods of 1 to 3 years.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and other office equipment.

14. TRADE AND OTHER PAYABLES

	31 March 2021 \$'000	31 March 2020 \$'000
Trade payables	8,078	6,302
Amounts owed to related parties	1,890	1,856
Employee entitlements	687	500
Other payables	4,398	5,233
	15,053	13,893

15. PROVISIONS

	Warranty Provision \$'000	Annual Leave Provision \$'000	Long Service Leave \$'000	TOTAL \$'000
At 31 March 2020	66	1,843	1,198	3,107
Additional provisions recognised	71	1,862	86	2,019
Credited to the profit or loss	-	(1,367)	(49)	(1,416)
At 31 March 2021	137	2,338	1,235	3,710

	31 March 2021 \$'000	31 March 2020 \$'000
Current	2,730	2,120
Non-current	980	987
	3,710	3,107

i) The warranty provision is considered to be a current liability as at 31 March 2021 (current as at 31 March 2020).

ii) The provision for annual leave is considered to be a current liability as at 31 March 2021 (current as at 31 March 2020).

iii) The provision for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Entitlements attached to employees with a service period of greater than 7 years is classified as a current liability. The provision for all other employees are considered to be a non-current liability.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

16. CONTRIBUTED EQUITY AND RESERVES

	31 March 2021 \$'000	31 March 2020 \$'000
Issued and Paid Up Capital		
Ordinary shares	2,000	2,000
	<u>2,000</u>	<u>2,000</u>
Reserves		
Cash flow hedge reserve	(6)	-
Deferred tax on hedge reserve	-	-
	<u>(6)</u>	<u>-</u>

The Cash flow hedge reserve includes gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

	31 March 2021 \$'000	31 March 2020 \$'000
Retained Earnings		
Balance at 31 March 2020	6,124	17,657
Net Profit/(Loss) for the year	7,636	8,298
IFRS 16 Balance at 31 March 2021	-	(156)
Dividends paid	(13,785)	(19,675)
Balance at 31 March 2021	(25)	6,124

17. COMMITMENTS AND CONTINGENCIES

No commitment or contingencies at 31 March 2021 (2020: Nil)

18. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

The Group accounting policies, including the terms and conditions of each class of financial asset and financial liability, both recognised and unrecognised at the balance sheet date, are as follows:

Financial Instruments	Notes	Accounting Policies	Terms and Conditions
(i) Financial assets at amortised cost			
Receivable - trade	8	Trade receivables are carried at nominal amounts due less any provision for impairment. The Company has considered debts written off over the past five years and note the expected credit loss on current receivables is nil.	Credit sales depend on terms extended to individual customers.
Receivables - related parties/entities	8	Amounts (other than trade debts) receivable from related parties/entities are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Details of the terms and conditions are set out in Note 20.
Cash and cash equivalents	7	Cash and bank balances are carried at the principal amount.	
(ii) Financial liabilities at amortised cost			
Trade creditors and accruals	14	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company.	Trade liabilities are normally settled on 20 th of the month following receipt of invoice.
Accounts payable - related parties/entities	14	Loans from related parties are carried at the principal amount. Interest (when charged by the lender) is taken up as an expense on an accrual basis.	Details of the terms and conditions are set out in Note 20.
Derivatives	10	Derivatives are only used for economic hedging purposes and not as speculative instruments.	

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

(b) Financial risk management objectives & policies

The Company's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to manage the Company's funding and liquidity requirements. The Company has other financial instruments such as trade receivables and trade payables which arise directly from its operations. The principal financial risks to which the Company is exposed are those relating to commodity price, credit, liquidity, foreign currency and interest rate. These risks are managed in accordance with Babcock International Group Plc approved policies.

Foreign currency risk

The Company buys and sells goods and services in currencies other than their functional currency. As a result, the Company's non-New Zealand dollar revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Company seeks to minimise their transaction exposure by maintaining a policy that forward foreign currency contracts are used to eliminate exposures on significant committed transactions. It is Company policy not to engage in any speculative transaction of any kind. The Company adopts hedge accounting when forward foreign currency contracts are used and is detailed in accounting policy 2(j).

Commodity price risk

The Company's exposure to raw material price risk is generally diminished by restricting bid validity to periods within those quoted by suppliers and by material price escalation clauses.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables and amounts due under long term contracts. Where appropriate, the Company endeavours to minimise risk by the use of trade finance instruments such as letters of credit and insurance. Credit worthiness checks are also undertaken before entering into contracts with new customers and credit limits are set as appropriate. No bad debts or doubtful debts have been recognised in the year (2019/20: \$nil). An allowance for impairment is made where there is an identifiable loss event which, based on previous experience, is evidence of a reduction in the recoverability of cash flows.

The Company applies the NZ IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

The expected credit losses are based on the payment profiles over a 36 month period and the corresponding historical credit losses experience within this period. On the basis that there is a large proportion of Government contracts the Expected Credit Loss is nil

Liquidity risk

The Company's objectives are to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and finance leases.

Interest rate risk

The Company borrowings consist of an overdraft balance at a variable rate of interest. Based on current levels of net debt, interest rate risk is not considered to be material.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

(c) Interest Rate Risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	Within 1 year	1 - 2 years	2 - 3 years	3 - 4 years	More than 5 years	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 31 March 2021						
Floating interest						
Cash	5,709	-	-	-	-	5,709
Weighted average effective interest rate	0%					
Year ended 31 March 2020						
Floating interest						
Cash	7,817	-	-	-	-	7,817
Weighted average effective interest rate	0%					

19. RELATED PARTY DISCLOSURE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

The following table provides the total amount of transactions which have been entered into with related parties for the relevant financial period (for information regarding outstanding balances at year end, refer to note 8 and note 15):

<i>Related party</i>		Recharges to related parties \$	Sales to related parties \$	Purchases from related parties \$	Amounts owed by related parties \$	Amounts owed to related parties \$
Babcock Australia Holdings Pty Ltd	2021	7,142		2,512,745		1,398,376
	2020	-	-	825,050		222,784
Babcock Marine Holdings (UK) Limited	2021	-			18,971,460	
	2020	-	-	-	13,169,412	151,659
Babcock International Group	2021			175,587		3,690
	2020					
Babcock Corporate Services Ltd	2021	239,972		1,524,527	146,541	94,088
	2020					
Babcock Integrated Technology Limited	2021			2,727,287		87,293
	2020					
Babcock Pty Ltd	2021	-		548,546		306,450
	2020	-		930,552	237,110	1,028,092
Babcock Pty Ltd - FX Hedging	2021	-			3,895,338	-
	2020	-			102,153	-
Babcock Information Services	2021					
	2020	95,670		897,206		453,682
Babcock Devonport Royal Dockyard	2021			6,562		
	2020	-		16,765		282
Total Balance				31-Mar-21	<u>23,013,339</u>	<u>1,889,898</u>
				31-Mar-20	<u>13,508,676</u>	<u>1,856,499</u>

There were no material transactions/loans to or from directors and/or other key management personnel during the year.



Independent auditor's report

To the directors of Babcock (NZ) Ltd

Our opinion

In our opinion, the accompanying consolidated financial statements of Babcock (NZ) Ltd (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

We have audited

The Group's consolidated financial statements comprise:

- the statement of financial position as at 31 March 2021;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the consolidated financial statements, which include a significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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 are independent of the Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other than in our capacity as auditor we have no relationship with, or interests in, the Group.

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the consolidated financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group'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 Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs 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 consolidated financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-7/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's directors, as a body. Our audit work has been undertaken so that we might state those matters which 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 directors, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Julian McCarthy.

For and on behalf of:

PRICEWATERHOUSE COOPERS

Chartered Accountants
22 October 2021

Adelaide

I, Julian McCarthy, am currently a member of chartered Accountants Australia and New Zealand and my membership number is 216556.

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Babcock (NZ) Ltd for the year ended 31 March 2021. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 22 October 2021 and an unqualified opinion was issued.

A handwritten signature in dark ink, appearing to read 'J McCarthy', with a long, sweeping horizontal line extending from the end of the signature.

Julian McCarthy