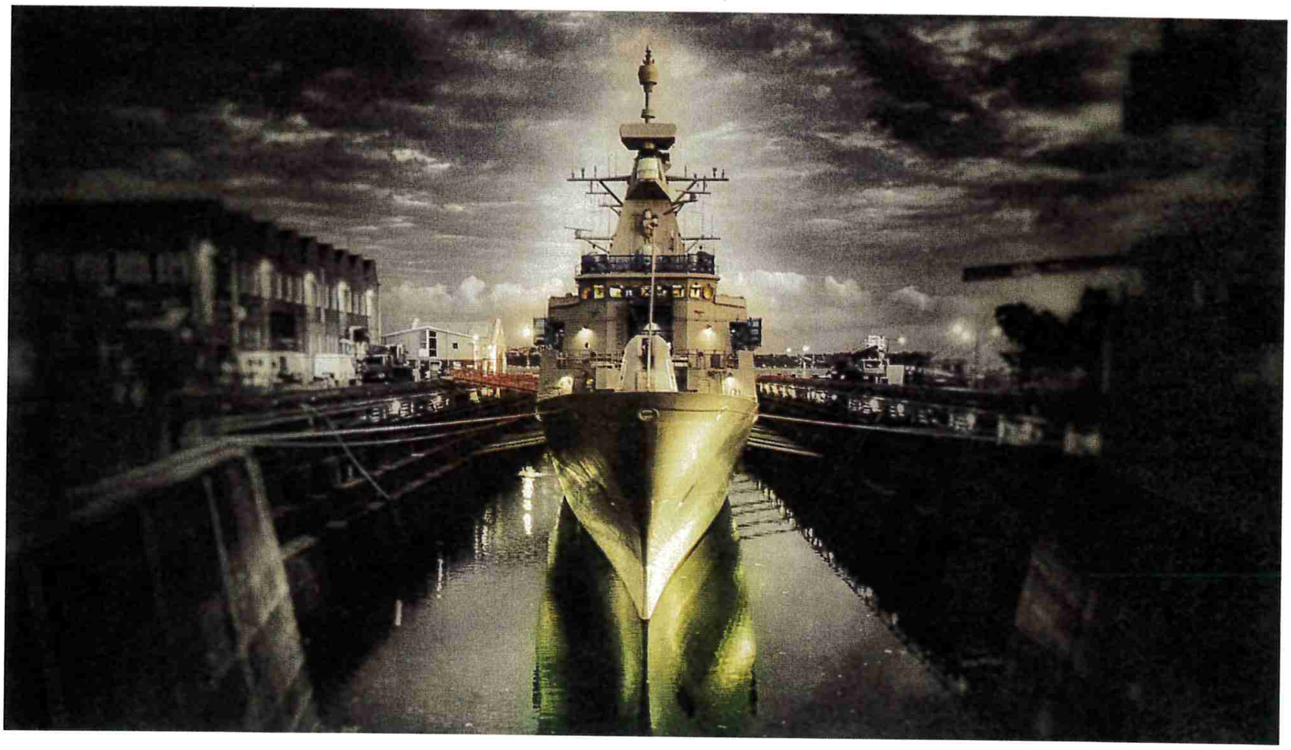
# BABCOCK (NZ) LTD

# ANNUAL REPORT
# FOR THE
# YEAR ENDED 31 MARCH 2022



# BABCOCK (NZ) LTD
# ANNUAL FINANCIAL STATEMENTS
# YEAR ENDED 31 MARCH 2022

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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 2022.

The Directors comprises of David Ruff and Andrew Cridland.

In the opinion of the Directors of Babcock (NZ) Limited, the financial statements and notes, on pages 3 to 27:

- 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 2022 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 3 to 27 are signed for and on behalf of the Board and were authorised for issue on the date below.

A. C...

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Andrew Cridland

Director

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David Ruff

Director

15 November 2022

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
# FOR THE YEAR ENDED 31 MARCH 2022

| | Notes | Year Ended 31 March 2022 $'000 | Year Ended 31 March 2021 $'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue from contracts with customers | 3(a) | 147,632 | 105,904 |
| Cost of sales | | (134,124) | (94,819) |
| **Gross Profit** | | **13,508** | **11,085** |
| Other expenses | | (6,065) | (1,272) |
| Other income | | 153 | 180 |
| **Profit / (Loss) before share of joint venture net profit** | | **7,596** | **9,993** |
| **Operating Profit** | 3(c) | **7,596** | **9,993** |
| Net Finance income | 3(d) | 1,025 | 624 |
| **Profit Before Income Tax** | | **8,621** | **10,617** |
| Tax expense | 6 | (2,233) | (2,981) |
| **Net Profit for the Year** | | **6,388** | **7,636** |
| **Other Comprehensive Income** | | | |
| *Items that may be reclassified to profit or loss* | | | |
| Changes in the value of cash flow hedges | | 4 | (6) |
| **Other Comprehensive Income for the year, net of tax** | | **4** | **(6)** |
| **Total Comprehensive Income for the year attributable to owners of Babcock (NZ) Ltd** | | **6,392** | **7,630** |

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 2022

| | Notes | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|---|
| Cash and cash equivalent | 7 | 4,893 | 5,709 |
| Trade and other receivables | 8 | 23,901 | 24,619 |
| Contract assets | 3(b) | 257 | 28 |
| Inventories | 9 | 1,164 | 684 |
| **Total Current Assets** | | **30,215** | **31,040** |
| Property, plant and equipment | 11 | 2,040 | 1,937 |
| Intangibles | 13 | 236 | 482 |
| Right-of-use assets | 12 | 374 | 1,414 |
| Goodwill | | 921 | 921 |
| Deferred tax assets | 6 | 1,994 | 1,863 |
| **Total Non-current Assets** | | **5,565** | **6,617** |
| **TOTAL ASSETS** | | **35,780** | **37,657** |
| Trade and other payables | 14 | 14,151 | 14,243 |
| Tax payable | 6 | 328 | 810 |
| Contract liabilities | 3(b) | 6,165 | 14,316 |
| Deferred revenue | 3(b) | 2,258 | 1,078 |
| Financial derivatives | 10 | 2 | 6 |
| Provisions | 15 | 3,288 | 2,730 |
| Lease liabilities | 12 | 327 | 1,447 |
| **Total Current Liabilities** | | **26,519** | **34,630** |
| Lease liabilities | 12 | 58 | 78 |
| Provisions | 15 | 842 | 980 |
| **Total Non-current Liabilities** | | **900** | **1,058** |
| **TOTAL LIABILITIES** | | **27,419** | **35,688** |
| **NET ASSETS** | | **8,361** | **1,969** |
| Equity share capital | 16 | 2,000 | 2,000 |
| Reserves | 16 | (2) | (6) |
| Retained earnings / (Accumulated losses) | 16 | 6,363 | (25) |
| **TOTAL SURPLUS IN EQUITY** | | **8,361** | **1,969** |

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 2022

| | Ordinary share capital $'000 | Cash flow hedge reserve $'000 | Retained earnings $'000 | TOTAL EQUITY $'000 |
|---|---|---|---|---|
| **Balance at 31 March 2020** | **2,000** | | **6,124** | **8,124** |
| Profit for the period | - | - | 7,636 | 7,636 |
| Dividend paid | - | - | (13,785) | (13,785) |
| Other comprehensive income | - | (6) | - | (6) |
| **Total Comprehensive Income** | **-** | **(6)** | **(6,149)** | **(6,155)** |
| **Balance at 31 March 2021** | **2,000** | **(6)** | **(25)** | **1,969** |
| Profit for the period | - | - | 6,388 | 6,388 |
| Other comprehensive income | - | 4 | - | 4 |
| Dividends paid | - | - | - | - |
| **Total Comprehensive Income** | **-** | **4** | **6,388** | **6,392** |
| **Balance at 31 March 2022** | **2,000** | **(2)** | **6,363** | **8,361** |

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 2022

| | Notes | Year Ended 31 March 2022 $'000 | Year Ended 31 March 2021 $'000 |
|---|---|---|---|
| Receipts from customers and related parties | | 161,004 | 135,991 |
| Payments to suppliers, employees and related parties | | (157,263) | (108,335) |
| Income tax paid | | (2,845) | (4,748) |
| **Net Cash inflow from Operating Activities** | | **896** | **22,908** |
| Purchases of property, plant and equipment | | (702) | (755) |
| Proceeds from sale of property, plant and equipment | | 3 | 21 |
| Purchases of intangibles | | (22) | (28) |
| Amounts received from / (paid to) from related parties | | (316) | (9,471) |
| **Net Cash inflow / (outflow) from Investing Activities** | | **(1,037)** | **(10,233)** |
| Principal repayments on leases | | (1,700) | (1,623) |
| Interest expense on leases | | (42) | (121) |
| Interest received | | 1,067 | 746 |
| Dividends paid | | - | (13,785) |
| **Net Cash outflow from Financing Activities** | | **(675)** | **(14,783)** |
| **Decrease in Cash and Cash Equivalents** | | **(816)** | **(2,108)** |
| Cash and cash equivalents at the beginning of the year | | 5,709 | 7,817 |
| Effects of exchange rate changes on cash and cash equivalents | | - | - |
| **Cash and Cash Equivalents at the end of the year** | 7 | **4,893** | **5,709** |

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 2022

## 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 incorporated logistics and engineering solutions in support of the RNZN. A new Maritime Fleet Sustainment Services contract was signed on 23 February 2022 and was effective from 1 March 2022. The term of the new MFSS contract is 7 years and 6 month from 1 March 2022.

In addition, the company 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 2022.

## 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 2022 the company is in a net current asset position of $3,696,000. (2021: Net current liabilities of $3,590,000). 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 2022

*Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of the Company, Babcock (NZ) Ltd and its wholly owned subsidiary Marine Industrial Design Ltd. All inter-company accounts and transactions have been eliminated in consolidation.

## 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 becomes 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.

## 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.

*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.

## 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.

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 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 form the reporting date. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 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.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

## 3. REVENUE AND EXPENSES

| | Note | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|---|
| **(a) Revenue from contracts with customers** | | | |
| Rendering of services | | 147,632 | 105,904 |
| | | **147,632** | **105,904** |
| Timing of revenue recognition; | | | |
| At a point in time | | 399 | 461 |
| Over time | | 147,233 | 105,443 |
| | | **147,632** | **105,904** |
| **(b) Assets and liabilities related to contracts with customers** | | | |
| Amounts due from customers for contract work | | 257 | 28 |
| **Total contract assets** | | **257** | **28** |
| Deferred contract costs | | 2,258 | 1,078 |
| **Total contract costs - non current** | | **2,258** | **1,078** |
| Amounts due to customers for contract work | | 6,165 | 14,316 |
| **Total contract liabilities** | | **6,165** | **14,316** |
| **(c) Operating profit** | | | |
| Operating profit includes: | | | |
| Other employee benefits* | | 5,259 | 5,134 |
| Depreciation of property, plant and equipment | 11 | 596 | 585 |
| Amortisation of intangibles | 13 | 267 | 244 |
| Depreciation on right-of-use assets – other | 12 | 1,601 | 1,579 |
| **(d) Net finance Income** | | | |
| Interest income | | 1,120 | 810 |
| Interest expense - leases | | (42) | (122) |
| Financial charges | | (53) | (64) |
| | | **1,025** | **624** |

*The labour costs for a contract in the prior period have been included in the other expenses line item in the consolidated statement of comprehensive income and this is now reclassified as cost of sales.

## 4. AUDITORS' REMUNERATION

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

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Audit of the financial statements | 198 | 61 |
| | **198** | **61** |

## 5. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Salary and fees | 2,477 | 1,673 |
| Superannuation | 55 | 36 |
| | **2,532** | **1,709** |

## 6. INCOME TAX

Major components of income tax expense for the years ended 31 March 2022 and 31 March 2021 are:

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Current income tax** | | |
| Current income tax expense | 2,551 | 3,391 |
| Adjustments in respect of prior year tax | (172) | 2 |
| | **2,379** | **3,393** |
| **Deferred income tax** | | |
| Relating to origination and reversal of temporary differences | (146) | (412) |
| Adjustments in respect of deferred tax from previous years | - | - |
| | **2,233** | **2,981** |

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 2022 and 31 March 2021 is as follows:

| | | |
|---|---|---|
| **Accounting profit / (loss) before income tax** | **8,621** | **10,617** |
| Tax at the New Zealand tax rate of 28% (2020/21: 28%) | 2,413 | 2,972 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Entertainment expenses | 6 | 6 |
| IFRS 16 – Tax impact | (14) | - |
| Prior year tax adjustment | (172) | 3 |
| **Income tax expense / (benefit) reported in the Statement of Comprehensive Income** | **2,233** | **2,981** |
| *Effective rate* | *26%* | *28%* |

**Deferred income tax**

Deferred income tax at balance date relates to the following:

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| *Deferred income tax liabilities* | | |
| Right-of-use assets | - | 13 |
| | **-** | **13** |
| *Deferred income tax assets* | | |
| Unearned income | 71 | 121 |
| Inventory | 42 | 73 |
| Property, plant and equipment | 119 | 93 |
| Trade Creditors | 1 | 1 |
| Provisions | 1,802 | 1,588 |
| Lease liabilities | (41) | - |
| | **1,994** | **1,876** |
| **Net deferred income tax assets** | **1,994** | **1,863** |

**Income tax payable**

| | | |
|---|---|---|
| Income tax payable | 328 | 810 |
| | **328** | **810** |

## 7. CASH AND CASH EQUIVALENTS

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Reconciliation of Cash** | | |
| Cash balance comprises of: | | |
| Cash and Cash equivalents | 4,893 | 5,709 |
| | **4,893** | **5,709** |

## 8. TRADE AND OTHER RECEIVABLES

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Trade receivables | 1,948 | 1,521 |
| Amounts owed by related parties | 21,837 | 23,013 |
| Prepayments | 116 | 85 |
| | **23,901** | **24,619** |

## 9. INVENTORIES

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Work in progress | 553 | 217 |
| Finished goods - at cost | 611 | 467 |
| | **1,164** | **684** |

## 10. FINANCIAL DERIVATIVES

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Current liabilities** | | |
| Forward foreign currency contracts | (2) | (6) |
| **Non-current liabilities** | | |
| Forward foreign currency contracts | - | - |
| **Total liabilities** | **(2)** | **(6)** |

In accordance with the company's hedging strategy, some lease liabilities are also designated as hedging instruments. Babcock (NZ) Ltd have no leases being paid for in foreign currency and no lease liabilities that are designated as hedging instruments as at 31 March 2022. Refer note 12.

## 11. PROPERTY, PLANT & EQUIPMENT

| | Land and Buildings $'000 | Plant and Equipment $'000 | Motor Vehicles $'000 | TOTAL $'000 |
|---|---|---|---|---|
| **Cost:** | | | | |
| *at 31 March 2020* | 370 | 9,583 | 489 | **10,442** |
| Additions | - | 775 | - | **775** |
| Disposals | - | (73) | - | **(73)** |
| *at 31 March 2021* | **370** | **10,285** | **489** | **11,144** |
| Additions | - | 672 | 30 | **702** |
| Disposals | - | (3) | - | **(3)** |
| *at 31 March 2022* | **370** | **10,954** | **519** | **11,843** |
| **Accumulated Depreciation:** | | | | |
| *at 31 March 2020* | (272) | (7,995) | (407) | **(8,674)** |
| Depreciation for the year | (19) | (526) | (40) | **(585)** |
| Disposed during the year | - | 52 | - | **52** |
| *at 31 March 2021* | **(291)** | **(8,469)** | **(447)** | **(9,207)** |
| Depreciation for the year | (18) | (551) | (27) | **(596)** |
| Disposed during the year | - | - | - | **-** |
| *at 31 March 2022* | **(309)** | **(9,020)** | **(474)** | **(9,803)** |
| **Net book value at 31 March 2022** | **61** | **1,934** | **45** | **2,040** |
| **Net book value at 31 March 2021** | **79** | **1,816** | **42** | **1,937** |

## 12. LEASES

### *(i) Amounts recognised in the balance sheet*

| | 31 March 2022 $000 | 31 March 2021 $000 |
|---|---|---|
| **Right-of-use assets** | | |
| Property | 281 | 1,278 |
| Plant and Equipment | 93 | 136 |
| | **374** | **1,414** |

Additions to the right-of-use assets during the 2022 financial year were $594,258.35

| | | |
|---|---|---|
| **Lease liabilities** | | |
| Current | 327 | 1,447 |
| Non-current | 58 | 78 |
| | **385** | **1,525** |

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

| | | |
|---|---|---|
| Within one year | 487 | 1,570 |
| Later than one year but not later than five years | 59 | 21 |
| Later than five years | - | - |
| | **546** | **1,591** |

### *(ii) Amounts recognised in the profit or loss*

| | 31 March 2022 $000 | 31 March 2021 $000 |
|---|---|---|
| **Depreciation charge right-of-use assets** | | |
| Property | (1,559) | (1,534) |
| Plant and Equipment | (42) | (45) |
| | **(1,601)** | **(1,579)** |
| **Interest expense (included in finance cost)** | (42) | (121) |
| 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) | (59) | (75) |

The total cash outflow for leases in 2022 was $1,743,746 (2021: $1,745,897)

### *(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.

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.

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.

## 13. INTANGIBLES (SOFTWARE):

| | TOTAL $'000 |
|---|---|
| **Cost:** | |
| *at 31 March 2020* | 2,011 |
| Additions | 28 |
| Disposals | (20) |
| *at 31 March 2021* | **2,019** |
| Additions | 22 |
| Disposal | - |
| *at 31 March 2022* | **2,041** |
| | |
| **Accumulated Amortisation** | |
| *at 31 March 2020* | (1,294) |
| Amortisation for the year | (244) |
| *at 31 March 2021* | **(1,538)** |
| Amortisation for the year | (267) |
| Disposed during the year | - |
| *at 31 March 2022* | **(1,805)** |
| | |
| **Net book value at 31 March 2022** | **236** |
| **Net book value at 31 March 2021** | **482** |

## 14. TRADE AND OTHER PAYABLES

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Trade payables | 8,283 | 8,078 |
| Amounts owed to related parties | 398 | 1,890 |
| Employee entitlements | 996 | 687 |
| Other payables | 4,474 | 3,588 |
| | **14,151** | **14,243** |

## 15. PROVISIONS

| | Warranty Provision $'000 | Annual Leave Provision $'000 | Long Service Leave $'000 | TOTAL $'000 |
|---|---|---|---|---|
| ***At 31 March 2021*** | 137 | 2,338 | 1,235 | **3,710** |
| Additional provisions recognised | - | 1,972 | 30 | **2,002** |
| Credited to the profit or loss | - | (1,407) | (175) | **(1,582)** |
| ***At 31 March 2022*** | **137** | **2,903** | **1,090** | **4,130** |

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| Current | 3,288 | 2,730 |
| Non-current | 842 | 980 |
| | **4,130** | **3,710** |

i) The warranty provision is considered to be a current liability as at 31 March 2022 (current as at 31 March 2021).

ii) The provision for annual leave is considered to be a current liability as at 31 March 2022 (current as at 31 March 2021).

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.

## 16. CONTRIBUTED EQUITY AND RESERVES

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Issued and Paid-Up Capital** | | |
| Ordinary shares | 2,000 | 2,000 |
| | **2,000** | **2,000** |

| | 31 March 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Reserves** | | |
| Cash flow hedge reserve | (2) | (6) |
| Deferred tax on hedge reserve | - | - |
| | **(2)** | **(6)** |

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 2022 $'000 | 31 March 2021 $'000 |
|---|---|---|
| **Retained Earnings** | | |
| ***Opening Balance at 1 April*** | **(25)** | **6,124** |
| Net Profit/(Loss) for the year | 6,388 | 7,636 |
| Dividends paid | - | (13,785) |
| ***Closing Balance at 31 March*** | **6,363** | **(25)** |

## 17. COMMITMENTS AND CONTINGENCIES

No commitment or contingencies at 31 March 2022 (2021: Nil)

### Facilities

The Company has an overdraft facility of $2,500,000 (2020/21: $2,500,000) of which $0 (2020/21: $0) was used at year end. The facility is fully backed by a guarantee provided by Babcock International Group Plc.

## 18. FINANCIAL INSTRUMENTS

### (a) Terms, conditions and accounting policies

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 19. |
| 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 20th 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 19. |
| Derivatives | 10 | Derivatives are only used for economic hedging purposes and not as speculative instruments. | |

### (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.

### (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 $'000 | 1 - 2 years $'000 | 2 - 3 years $'000 | 3 - 4 years $'000 | More than 5 years $'000 | TOTAL $'000 |
|---|---|---|---|---|---|---|
| **Year ended 31 March 2022** | | | | | | |
| **Floating interest** | | | | | | |
| Cash | 4,893 | - | - | - | - | **4,893** |
| *Weighted average effective interest rate* | *0%* | | | | | |
| **Year ended 31 March 2021** | | | | | | |
| **Floating interest** | | | | | | |
| Cash | 5,709 | - | - | - | - | **5,709** |
| *Weighted average effective interest rate* | *0%* | | | | | |

# NOTES TO THE FINANCIAL STATEMENTS
# FOR THE YEAR ENDED 31 MARCH 2022

## 19. RELATED PARTY DISCLOSURE

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):

| *Related party* | | 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 | 2022 | - | - | - | - | - |
| | 2021 | 7,142 | - | 2,512,745 | - | 1,398,376 |
| Babcock Marine Holdings (UK) Limited | 2022 | - | - | - | 19,104,064 | - |
| | 2021 | - | - | - | 18,971,460 | - |
| Babcock International Group | 2022 | - | - | 102,347 | - | - |
| | 2021 | - | - | 175,587 | - | 3,690 |
| Babcock Corporate Services Ltd | 2022 | 148,173 | - | 1,312,018 | 20,346 | 103,170 |
| | 2021 | 239,972 | - | 1,524,527 | 146,541 | 94,088 |
| Babcock Integrated Technology Limited | 2022 | - | - | 3,156,513 | - | 13,414 |
| | 2021 | - | - | 2,727,287 | - | 87,294 |
| Babcock Land Limited | 2022 | 539,911 | - | - | - | 50,803 |
| | 2021 | 548,546 | - | - | - | 306,450 |
| Babcock Pty Ltd | 2022 | 63,305 | - | 7,817,231 | - | 99,302 |
| | 2021 | - | - | - | 3,895,338 | - |
| BSS (Investments) Ltd | 2022 | - | - | - | 2,712,717 | - |
| | 2021 | - | - | - | - | - |
| Babcock Devonport Royal Dockyard | 2022 | - | - | 130,953 | - | 130,953 |
| | 2021 | - | - | 6,562 | - | - |
| Babcock Canada | 2022 | - | - | - | - | 436 |
| | 2021 | - | - | - | - | - |
| Total Balance | | | | 31-Mar-22 | 21,837,127 | 398,078 |
| | | | | 31-Mar-21 | 23,013,339 | 1,889,898 |

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

Deloitte.

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# Independent Auditor's Report to the Shareholders of Babcock (NZ) Limited

*Opinion*

We have audited the financial statements of Babcock (NZ) Ltd (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at 31 March 2022, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration as set out on pages 2 to 26.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the Group's consolidated financial position as at 31 March 2022 and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)). 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 are independent of the Entity in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*, 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, except that partners and employees of our firm deal with the Group on normal terms within the ordinary course of trading activities of the business of the Group.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Responsibilities of the Directors for the Consolidated Financial Statements*

The directors of the Company are responsible on behalf of the Group for the preparation and fair presentation of the consolidated financial statements in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR), and for such internal control as the directors determine is necessary to enable the preparation of the 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 on behalf of the Group for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

**Deloitte.**

*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) 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.

As part of an audit in accordance with ISAs (NZ), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

PWoods

Penny Woods
Partner
Chartered Accountants
Adelaide, 15 November 2022