

Cavendish Nuclear Manufacturing Limited

Annual Report

For the year ended 31 March 2019

Company registration number:

2763400



Cavendish Nuclear Manufacturing Limited

Directors and advisors

Current directors

S C Bowen

K J Garvey

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street

London

England

W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Donington Court

Pegasus Business Park

Herald Way

East Midlands

DE74 2UZ

Cavendish Nuclear Manufacturing Limited

Strategic report for the year ended 31 March 2019

The directors present their Strategic report on the Company for the year ended 31 March 2019.

Principal activities

The principal activities of the Company are the fabrication of containers and associated equipment for the nuclear industry.

Review of the business

	2019	2018
	£000	£000
Revenue	5,061	10,205
Operating (loss)/profit for the financial year	(1,223)	85

During the year the Company delivered over 7,400 waste containers to the regulated Nuclear industry in support of projects in the UK. Losses came from delays in securing new orders, the shareholders regard this business as a strategic part of its nuclear decommissioning operation and continue to support whilst in year losses are incurred.

Principal risks and uncertainties

The Company's largest operational risk is the management of contracts to customer satisfaction. This is managed via regular project appraisals and continued dialogue with the customers as programmes progress. In addition, all major contracts have a live risk register.

The Company is exposed to risks associated with non-compliance with environmental, health and safety law and personal injury claims resulting from injuries sustained at work. A comprehensive framework of policies and procedures is in place to minimise this risk and the result is our excellent safety record.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 70 to 81 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The financial statements have been prepared on the going concern basis as Babcock Support Services (Investments) Limited, another company in the Babcock International group, has confirmed that it will provide such financial support and other support as is necessary to enable the Company to meet its liabilities for the foreseeable future.

Key performance indicators

The Group's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Nuclear, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 49 to 51 of the Group's report, which does not form part of this report.

The Company has in place and continues to develop the sales pipeline to support returning the business back to profitability in the medium term.

Cavendish Nuclear Manufacturing Limited

Strategic report for the year ended 31 March 2019 (continued)

The report has been approved by the board of directors and signed on behalf of the board by:



K J Garvey

Director

5 September 2019

Cavendish Nuclear Manufacturing Limited

Directors' report for the year ended 31 March 2019

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2019.

Dividends

The directors do not recommend a dividend for the year ended 31 March 2019 (2018: £nil).

Future developments

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

Financial risk management

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

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments.

All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 25 to 37 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Price risk

The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities.

Credit risk

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

Liquidity risk

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

Directors

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

S C Bowen
K J Garvey

Cavendish Nuclear Manufacturing Limited

Directors' report for the year ended 31 March 2019 (continued)

Going concern

The Company meets its day-to-day working capital requirements through bank facilities and the Group's treasury arrangements. The current economic conditions continue to create uncertainty over the Company's ongoing business and the availability of finance for the foreseeable future. However, the Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of available facilities. After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the point of approving this Annual Report. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of Babcock Support Services (Investments) Limited, another company in the Babcock International group. The directors have received confirmation that Babcock Support Services (Investments) Limited intend to support the Company for at least one year after these financial statements are signed.

Safety policy

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

Environment

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

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

Brexit considerations

The majority of the Company's revenue and cost base is both derived and sourced from the UK. A minority amount of materials are sourced from Europe and the Company has robust controls and contingency plans to mitigate the risk of disruption either by finding new sources, holding adequate stock to reduce logistical risk or by working with the European supply chain.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

Cavendish Nuclear Manufacturing Limited

Directors' report for the year ended 31 March 2019 (continued)

Statement of directors' responsibilities (continued)

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date, the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Qualifying third party indemnity provisions

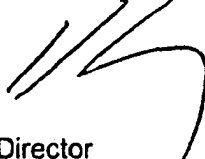
Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by the Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities were in force during the financial year and also at the date of approval of the financial statements.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

The report has been approved by the board of directors and signed on behalf of the board by:

K J Garvey



Director

5 September 2019

Cavendish Nuclear Manufacturing Limited

Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited

Report on the audit of the financial statements

Opinion

In our opinion, Cavendish Nuclear Manufacturing Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 March 2019; the Income statement, the Statement of comprehensive income, the Statement of changes in equity for the year then ended; and the Notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we

Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited (continued)

Report on the audit of the financial statements (continued)

Reporting on other information (continued)

do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors Responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

Cavendish Nuclear Manufacturing Limited

Independent auditors' report to the members of Cavendish Nuclear Manufacturing Limited (continued)

Report on the audit of the financial statements (continued)

Auditors' responsibilities for the audit of the financial statements (continued)

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
East Midlands

5 SEPTEMBER 2019

Cavendish Nuclear Manufacturing Limited

Income statement for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	5,061	10,205
Cost of sales		(6,240)	(9,784)
Gross (loss)/ profit		(1,179)	421
Administrative expenses		(44)	(336)
Operating (loss)/ profit	5	(1,223)	85
Finance costs	6	(23)	(23)
Other finance income - pensions	19	70	50
(Loss)/ profit before taxation		(1,176)	112
Income tax credit/ (expense)	9	98	(64)
(Loss)/ profit for the financial year		(1,078)	48

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2019

	Note	2019 £000	2018 £000
(Loss)/ profit for the financial year		(1,078)	48
Other comprehensive income/ (expense): <i>Items that will not be subsequently reclassified to income statement:</i>			
- Actuarial and experience gains recognised in the pension scheme	19	147	295
- Deferred tax arising on gains in the pension scheme	19	(28)	(56)
- Impact of change in UK tax rate		(6)	13
Total other comprehensive income		113	252
Total other comprehensive (expense)/ income		(965)	300

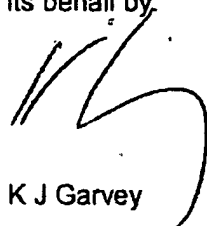
Cavendish Nuclear Manufacturing Limited

Balance sheet as at 31 March 2019

	Note	2019 £000	2018 £000
Non-current assets			
Tangible assets	10	286	375
Retirement benefit assets	19	2,218	2,508
		2,504	2,883
Current assets			
Inventories	11	240	595
Trade and other receivables	12	557	4,938
Cash at bank and in hand		455	-
		1,272	5,533
Trade and other payables	13	(7,087)	(10,795)
Net current liabilities		(5,815)	(5,262)
Total assets less current liabilities		(3,311)	(2,379)
Provision for liabilities	14	(497)	(464)
Net liabilities		(3,808)	(2,843)
Equity			
Called up share capital	16	1,000	1,000
Accumulated losses		(4,808)	(3,843)
Total shareholders' deficit		(3,808)	(2,843)

The notes on pages 13 to 30 are an integral part of these financial statements.

The financial statements on pages 10 to 30 were approved by the board of directors and signed on its behalf by:



K J Garvey

Director

5 September 2019

Cavendish Nuclear Manufacturing Limited**Statement of changes in equity**
for the year ended 31 March 2019

	Called up share capital	Accumulated losses	Total shareholders' deficit
	£000	£000	£000
Balance at 1 April 2017	1,000	(4,143)	(3,143)
Profit for the financial year	-	48	48
Other comprehensive income	-	252	252
Balance at 31 March 2018	1,000	(3,843)	(2,843)
Loss for the financial year	-	(1,078)	(1,078)
Other comprehensive income	-	113	113
Balance at 31 March 2019	1,000	(4,808)	(3,808)

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements

1 General information

Cavendish Nuclear Manufacturing Limited is a private limited company, limited by shares, which is incorporated and domiciled in England, part of the United Kingdom. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company has early adopted the following amendments to FRS 101 (effective for periods beginning on or after 1 January 2017) in these financial statements:

- Presentation of IAS format financial statements
- Exemption from the presentation of a third balance sheet (being the opening balance sheet of the Company at the date of application of FRS 101, meaning in this instance 1 April 2014)

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. 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 note 3.

The Company is a wholly owned subsidiary of Babcock Services Group Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Therefore the Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements.

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- c) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Basis of preparation (continued)

- a) IAS 7, 'Statement of cash flows'
- b) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- c) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Going concern

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements as Babcock Support Services (Investments) Limited, another company in the Babcock International group, has confirmed that it will provide such financial support and other support as is necessary to enable the Company to meet its liabilities for the foreseeable future.

Adoption of new and revised standards

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2018. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 15, 'Revenue from Contracts with Customers' (effective 1 January 2018), replaces existing revenue recognition standards. The Company's previous revenue recognition policy was materially compliant with IFRS 15. The Company has adopted the modified transition approach in line with IFRS 15. As such prior year comparative balances have not been adjusted as permitted by the Standard.

Revenue

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

(a) Performance obligations

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

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Revenue (continued)

is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin, in accordance with the Group's pricing principles. The Company's contracts typically do not include significant financing components.

(c) Revenue and profit recognition

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

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

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

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

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

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outcome assessments are carried out on a contract-by-contract basis by suitably qualified and experienced Company personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Company management. Assessment of outcomes are in relation to separate performance obligations and include variable consideration, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Revenue (continued)

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

(d) Costs of obtaining a contract

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

(e) Contract mobilisation costs

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

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Specialised plant and equipment has been purchased to manufacture containers in respect to a specific contract. The depreciation on these assets is written off in proportion to the number of containers produced. Depreciation on all other assets is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Plant and machinery	5 to 10 years
Fixtures and fittings	3 to 7 years
Short leasehold buildings	Lease term

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

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. In the case of work in progress and finished goods, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

Pension costs and other post-retirement benefits

The Company participates in defined benefit schemes that share risks between entities under common control. The defined benefit schemes define the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension schemes are charged to operating profit in the entities which participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets is measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The schemes' asset or liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

The Company participates in defined benefit contribution schemes. Obligations for contributions to the defined benefit pension plans are recognised as an expense in the income statement.

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year-end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

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

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

3 Critical accounting estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 19 for the result of the defined benefit pension scheme.

4 Revenue

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

	2019 £000	2018 £000
By area of activity:		
Sale of goods – transferred at a point in time	5,061	10,205
By geographical location:		
UK	5,061	10,095
Europe	-	110
	5,061	10,205

5 Operating (loss)/ profit

Operating (loss)/ profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets	202	197
Operating lease charges		
- Land and buildings	170	171
- Plant and machinery	7	29
Audit fees payable to the Company's auditors	10	10

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than the statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

6 Finance costs

	2019 £000	2018 £000
Finance costs:		
Bank interest	(19)	(21)
Finance charge on unwinding of discount	(4)	(2)
	(23)	(23)

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

7 Staff costs

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

	2019 Number	2018 Number
By activity:		
Operations	38	39
Management and administration	7	7
	<u>45</u>	<u>46</u>

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	1,540	1,544
Social security costs	152	153
Other pension costs	<u>1,205</u>	<u>866</u>
	<u>2,897</u>	<u>2,563</u>

Included in other pension costs are £1,175,000 (2018: £853,000) in respect of the defined benefit schemes and £30,000 (2018: £13,000) in respect of the defined contribution scheme.

8 Directors' remuneration

All of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

9 Income tax credit / (expense)

Tax (income)/ expense included in income statement

	2019 £000	2018 £000
Current tax:		
UK Corporation tax on (loss) / profit for the year	-	-
Adjustment in respect of prior year	<u>-</u>	<u>-</u>
Current tax credit for the year	<u>-</u>	<u>-</u>

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

9 Income tax credit / (expense) (continued)

Deferred tax:

Origination and reversal of timing differences	(98)	58
Adjustment in respect of prior years	(2)	5
Impact of change in UK tax rate	2	1
Total deferred tax credit (note 15)	(98)	64
Tax on loss on	(98)	64

Tax expense included in other comprehensive income

Deferred tax:

- Tax impact of actuarial gains/ losses on pension schemes	28	(56)
- Impact of change in tax rates	6	13

Tax expense included in other comprehensive income	34	(43)
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Tax expense for the year is higher (2017: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2018 of 19% (2017: 20%). The differences are explained below:

	2019 £000	2018 £000
(Loss)/ profit before taxation	(1,176)	112
(Loss) / profit on ordinary activities before taxation multiplied by standard UK corporation tax rate of 19% (2018: 19%)	(223)	21
Effects of:		
Expenses not deductible for tax purposes	-	1
Group relief for nil consideration	125	36
Adjustments in respect of for prior years	(2)	5
Impact of change in UK tax rate	2	1
Total tax (credit) / charge for the year	(98)	64

In the UK 2015 Budget it was announced that the UK corporation tax rate will reduce to 19% for April 2017. It was announced in the 2016 UK Budget that it will be further reduced to 18% from April 2020. It was subsequently announced in 2017 UK Budget that it will be reduced to 17% from April 2020. As a result of this change, UK deferred tax balances have been remeasured at 17% as this is the tax rate that will apply on reversal.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

10 Tangible assets

	Short leasehold buildings £000	Plant and machinery £000	Fixtures and fittings £000	Total £000
Cost				
At 1 April 2018	-	7,367	211	7,578
Additions	18	95	-	113
At 31 March 2019	18	7,462	211	7,691
Accumulated depreciation				
At 1 April 2018	-	6,992	211	7,203
Charge for the year	-	202	-	202
At 31 March 2019	-	7,194	211	7,405
Net book value				
At 31 March 2019	18	268	-	286
At 31 March 2018	-	375	-	375

11 Inventories

	2019 £000	2018 £000
Raw materials and consumables	208	524
Work-in-progress	32	71
	240	595

There is no significant difference between the replacement cost of inventories and their carrying amounts.

12 Trade and other receivables

	2019 £000	2018 £000
Amounts falling due within one year:		
Trade receivables	394	4,253
Amounts due from customers for contract work	96	537
UK corporation tax receivable	15	15
Amounts owed by parent and group undertakings	15	21
Prepayments and accrued income	57	112
	577	4,938

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

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

12 Trade and other receivables (continued)

	Amounts due for contract work £000	Accrued Income £000	Capitalised contract costs £000	Total £000
At 31 March 2018	537			537
Reclassification – IFRS 15 Transition	-	-	-	-
31 March 2018 - restated	537	-	-	537
Transfers from contract assets recognised at the beginning of the year to receivables	(537)	-	-	(537)
Increase due to work done not transferred from contract assets	96	-	-	96
At 31 March 2019	96	-	-	96

13 Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year:		
Bank loans and overdrafts	-	4,925
Trade creditors	92	615
Amounts owed to parent and group undertakings	5,641	664
Taxation and social security	310	589
Deferred tax (note 15)	311	374
Payments received on account	237	509
Other payables	-	61
Accruals and deferred income	496	3,058
	7,087	10,795

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

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

13 Trade and other payables (continued)

	Contract cost accrual £000	Advance payments £000	Deferred income £000	Total £000
At 31 March 2018	2,971	509	-	3,480
Revenue recognised that was included in contract liabilities at the beginning of the year	-	(272)	-	(272)
Increase due to cash received, excluding amounts recognised as revenue	-	-	-	-
Amounts accrued	423	-	-	423
Amounts utilised	(2,971)	-	-	(2,971)
At 31 March 2019	423	237	-	660

14 Provisions for liabilities

	Continuing Annual Payments provision £000	Dilapidations provision £000	Contract provision £000	Total £000
At 1 April 2018	66	326	72	464
Charged to the income statement	-	-	28	28
Released to the income statement	(14)	-	-	(14)
Unwinding of discount	4	-	-	4
Utilised in the year	15	-	-	15
At 31 March 2019	71	326	100	497

Continuing Annual Payments provision

On being made redundant, certain staff are entitled to receive their annual pension immediately and the amounts payable include a contribution from the Company. The continuing annual payments provision comprises the Company's contribution to the annual pensions payable.

Dilapidations provision

This provision is for the cost of returning the leasehold building to its original pre-lease state.

Contract provision

The contract provision includes amounts provided for costs on existing contracts.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

15 Deferred taxation

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

	Accelerated capital allowances £000	Other £000	Total £000
Deferred tax assets/ (liabilities)			
At 1 April 2018:	40	(414)	(374)
- Credited to the income statement	14	84	98
- Charged to other comprehensive income	-	(34)	(34)
At 31 March 2019:	54	(364)	(311)

16 Called up share capital

	2019 £000	2018 £000
Allotted and fully paid		
1,000,000 (2018: 1,000,000) ordinary shares of £1 each	1,000	1,000

17 Guarantees and financial commitments

a) Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2018: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2018: £nil).

b) Operating lease commitments

At 31 March, the Company had future minimum rentals payable under non-cancellable operating leases as follows:

	2019 Land and buildings £000	2019 Other £000	2018 Land and buildings £000	2018 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- not later than one year	181	3	181	-
- later than one year and not later than five years	78	-	259	3
- later than five years	-	-	-	-
	259	3	440	3

The entity leases plant and machinery under non-cancellable operating leases.

Notes to the financial statements (continued)

17 Guarantees and financial commitments (continued)

c) Capital commitments

At 31 March 2019 the Company had capital commitments of £Nil (2018: £nil).

18 Related party disclosures

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

19 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to defined contribution schemes in the UK in respect of a number of its employees. The Company is also a contributing employer to a defined benefit scheme (the "Babcock International Group PLC Pension Scheme"). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme which has been recognised in these financial statements is detailed in this note.

The nature of the scheme is that the employees contribute to the scheme with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the scheme's investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2019 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2016. The major assumptions used for the IAS 19 valuation were:

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

	2019 %	2018 %
Major assumptions		
Rate of increase in salaries	2.3	2.2
Rate of increase in pension payment	3.0	2.9
Discount rate	2.4	2.6
Inflation	2.1	2.0

The expected total employer contributions to be made by participating employers to the scheme in 2019/20 are £21.7m. The future service rate is 29.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £21.7m is £8.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2019 Years	2018 Years
Life expectancy from age 65 (male age 65)	21.7	22.2
Life expectancy from age 65 (male age 45)	22.7	23.2

The changes to the Babcock International Group PLC balance sheet at March 2019 and the changes to the Babcock International Group PLC income statement for the year to March 2020, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2019 £000	Income statement 2019 £000
Initial assumptions	1,359,000	10,909
Discount rate assumptions increased by 0.5%	(98,670)	(5,658)
Discount rate assumptions decreased by 0.5%	98,949	2,282
Inflation rate assumptions increased by 0.5%	61,437	2,303
Inflation rate assumptions decreased by 0.5%	(55,449)	(2,102)
Total life expectancy increased by half a year	28,546	838
Total life expectancy decreased by half a year	(28,266)	(839)
Salary increase assumptions increased by 0.5%	8,974	605
Salary increase assumptions decreased by 0.5%	(8,695)	(605)

The weighted average duration of cash flows (years) was 16.

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2019 were:

Fair value of plan of assets	2019 £'000	2018 £'000
Equities	444,412	310,191
Property	136,657	120,844
Absolute return and multi strategy funds	16,135	4,833
Bonds	326,937	485,697
Matching assets	544,834	569,413
Scheme assets	1,468,976	1,490,978
Active position on longevity swaps	(60,111)	(50,150)
Total assets	1,408,865	1,440,828
Present market value of liabilities - funded	(1,359,140)	(1,380,628)
Gross pension surplus	49,725	60,200

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or share of Babcock International Group Plc.

The longevity swaps have been valued, in 2019, in line with assumptions that are consistent with the requirements of IFRS 13.

Analysis of amount charged to the income statement in Babcock International Group Plc	2019 £000	2018 £000
Current service cost	9,615	10,253
Incurred expenses	1,965	2,232
Past service cost	13,646	-
Settlement	221	-
Total included within operating profit	25,447	12,485
Net interest income	(1,524)	(1,194)
Total charged to the income statement	23,923	11,291

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group PLC charge, included £441,000 for service cost (2018: £427,000), £90,000 for incurred expenses (2018: £93,000), and net interest income of £70,000 (2018: income £50,000).

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2019 £000	2018 £000
Actuarial loss recognised in the SOCl	(4,077)	(4,169)
Experience gains	3,181	13,687
Other losses	(8,666)	(439)
	(9,562)	9,079

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £147,000 (2018: £295,000).

The equity investments and bonds are valued at bid price.

	2019 £000	2018 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	1,490,978	1,464,460
Interest cost	37,789	37,512
Employee contributions	272	404
Employer contributions	23,010	18,090
Benefits paid	105,081	(76,476)
Actuarial gain	22,007	46,988
At 31 March	1,468,975	1,490,978

	2019 £000	2018 £000
Reconciliation of present value of scheme liabilities		
At 1 April	1,380,628	1,371,687
Service cost	9,615	10,253
Incurred expenses	1,965	2,232
Interest on liabilities	34,972	35,058
Employee contributions	272	404
Actuarial (gain) / loss – demographics	(21,380)	11,172
Actuarial (gain) / loss – financial	47,464	(7,003)
Experience (gain) / losses	(3,181)	33,301
Benefits paid	(104,861)	(76,476)
Past service cost	13,646	-
At 31 March	1,359,140	1,380,628

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £2,218,000 (2018: £2,508,000).

Cavendish Nuclear Manufacturing Limited

Notes to the financial statements (continued)

21 Letter of support

Babcock Support Services (Investments) Limited, another company in the Babcock international group, has confirmed that it will provide financial support and other support as is necessary to enable the Company to meet its liabilities for the foreseeable future.

20 Ultimate parent undertaking

The Company's immediate parent company is Cavendish Nuclear Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX

