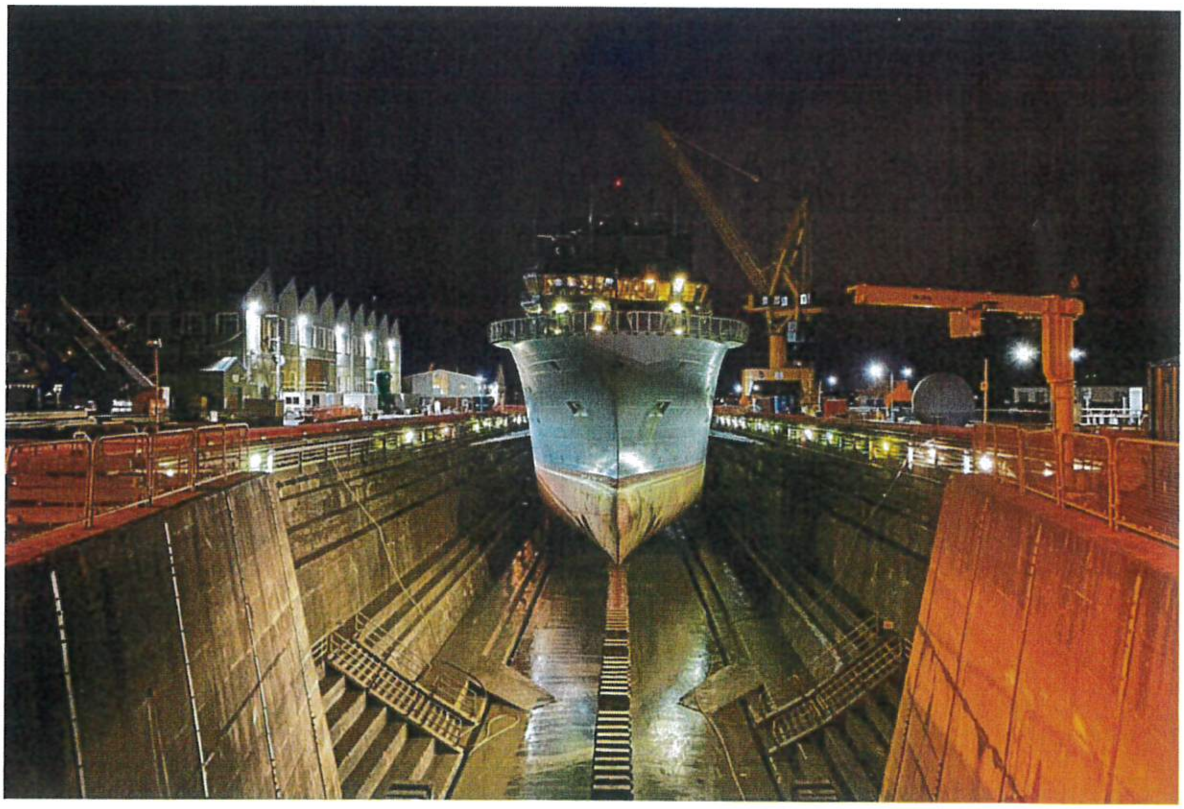
BABCOCK (NZ) LTD

ANNUAL REPORT
FOR THE
YEAR ENDED 31 MARCH 2020



BABCOCK (NZ) LTD
ANNUAL FINANCIAL REPORT
YEAR ENDED 31 MARCH 2020

CONTENTS

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 2020.
The Directors comprises of David Ruff, Andrew Cridland and Christopher Saxby.

In the opinion of the Directors of Babcock (NZ) Limited, the financial statements and notes, on pages 4 to 32:

- 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 2020 and the results of operations for the year ended on that date;
- have been prepared using the appropriate accounting policies, which have been consistently applied and supported by reasonable judgements and estimates.

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

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

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

The annual report and the financial statements presented on pages 4 to 32 are signed for and on behalf of the Board and were authorised for issue on the date below.

David Ruff

Director

Christopher Saxby

Director

Date: 9th October 2020

Company Directory

Nature of Business	Engineering and Maintenance Services
Registered Office	HMNZ Dockyard
	Devonport, Auckland 0744
	Telephone: 09 446-1999
Incorporation Number	1513132
Directors	David Ruff
	Christopher Saxby
	Andrew Cridland (appointed on 30th July 2020)

Directors who have resigned since 31st March 2020

Richard Tyrer (resigned on 30th July 2020)

Giovanni Ranaldo (resigned 16th August 2019)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	Year Ended 31 March 2020	Year Ended 31 March 2019
		$	$
Continuing operations			
Revenue from contracts with customers	3(a)	81,944,681	64,720,786
Cost of sales		(73,901,735)	(58,382,564)
Gross Profit		8,042,946	6,338,222
Other expenses	3(d)	(758,888)	(1,279,101)
Other income	3(c)	770,922	194,650
Operating Profit		8,054,980	5,253,770
Finance income	3(e)	3,500,885	15,990
Profit Before Income Tax		11,555,865	5,269,760
Tax benefit / (expense)	6	(3,257,671)	(1,499,638)
Net Profit for the Year		8,298,194	3,770,122
Other Comprehensive Profit			
Items that may be reclassified to profit or loss			
Changes in the value of deferred tax reserve		-	-
Changes in the value of cash flow hedges		-	-
Other Comprehensive Income Profit for the year, net of tax		-	-
Total Comprehensive Profit for the year attributable to owners of Babcock (NZ) Ltd		8,298,194	3,770,122

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

STATEMENT OF FINANCIAL POSITION
AS AT 31 MARCH 2020

	NOTE	31 March 2020 $	31 March 2019 $
ASSETS			
Current Assets			
Cash and cash equivalent	7	7,816,999	2,422,880
Trade and other receivables	8	16,804,222	29,768,960
Contract assets	3(b)	343,761	-
Inventories	9	519,125	712,682
Total Current Assets		25,484,107	32,904,522
Non-current Assets			
Property, plant and equipment	10	1,767,798	1,955,000
Right-of-use Asset	11	2,955,325	-
Intangibles	12	717,000	888,000
Goodwill		921,484	921,484
Deferred tax assets	6	1,450,787	1,225,391
Total Non-current Assets		7,812,394	4,989,875
TOTAL ASSETS		33,296,501	37,894,397
LIABILITIES			
Current Liabilities			
Trade and other payables	13	13,893,843	7,361,193
Contract liabilities	3(b)	3,138,776	6,434,621
Deferred revenue	3(b)	1,920,902	1,539,191
Provisions	14	2,120,209	1,972,133
Lease Liabilities	11	1,700,243	-
Total Current Liabilities		22,773,973	17,307,138
Non-current Liabilities			
Provisions	14	986,777	930,986
Lease Liabilities	11	1,412,046	
Total Non-current Liabilities		2,398,823	930,986
TOTAL LIABILITIES		25,172,796	18,238,124
NET ASSETS / (LIABILITIES)		8,123,705	19,656,273
EQUITY			
Equity share capital	15	2,000,000	2,000,000
Retained earnings	15	6,123,705	17,656,273
TOTAL SURPLUS IN EQUITY		8,123,705	19,656,273

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Ordinary share capital $	Retained earnings $	Total equity $
Balance at 31 March 2018	**2,000,000**	**13,886,151**	**15,886,151**
Profit for the year	-	3,770,122	3,770,122
Other comprehensive income	-	-	-
Total Comprehensive Income	-	3,770,122	3,770,122
Balance at 31 March 2019	**2,000,000**	**17,656,273**	**19,656,273**
Profit for the year	-	8,298,194	8,298,194
Leases transition adjustment	-	(155,748)	(155,748)
Other comprehensive income	-	-	-
Total Comprehensive Income	-	8,142,446	8,142,446
Dividend Paid	-	(19,675,015)	(19,675,015)
Balance at 31 March 2020	**2,000,000**	**6,123,705**	**8,123,705**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2020

	NOTE	Year Ended 31 March 2020 $	Year Ended 31 March 2019 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and related parties (inclusive of GST)		88,786,894	12,280,950
Payments to suppliers, employees and related parties (inclusive of GST)		(79,423,376)	-
Income tax paid		(1,672,099)	(387,000)
Net Cash outflow from Operating Activities	7	7,691,419	11,893,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(501,800)	(181,000)
Purchases of intangibles		(145,000)	(302,000)
Amounts received/(paid to) from related parties		16,080,518	(19,600,000)
Dividends paid		(19,675,015)	-
Net Cash inflow from Investing Activities		(4,241,297)	(20,083,000)
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal element of lease payments	11	(1,556,888)	-
Interest element of lease payments	11	(175,043)	-
Interest Income		3,675,928	29,930
Net Cash inflow from Financing Activities		1,943,997	29,930
Decrease in Cash and Cash Equivalents		5,394,119	(8,159,120)
Cash and cash equivalents at the beginning of the year		2,422,880	10,582,000
Cash and Cash Equivalents at the end of the year	7	7,816,999	2,422,880

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

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

1. GENERAL INFORMATION

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

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

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

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

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

The financial statements present the Babcock (NZ) Group consolidated financial statements for the year ended 31 March 2020.

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.

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.

b. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

c. Borrowing costs

Borrowing costs are recognised as an expense when incurred.

d. Cash and cash equivalents

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

e. Receivables

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

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

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

f. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise of direct materials and are assigned to individual items of inventory on the basis of first-in, first-out costs. 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. When revalued assets are sold, it is Company policy to transfer any amounts included in other reserves in respect of those assets to retained earnings.

Impairment

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

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

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

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

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

Derecognition and disposal

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

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

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 provide 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.

q. New and amended standards adopted by the Entity

NZ IFRS 16 Leases

The group has adopted NZ IFRS 16 Leases retrospectively from 1 April 2019, but has not restated comparatives for the 2019 reporting period. The reclassifications and the adjustments arising from the new leasing rules are recognised in the opening balance sheet on 1 April 2019. The new accounting policies are disclosed in note 12.

On adoption of NZ IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of NZ IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average incremental borrowing rate applied to the lease liabilities at the date of transition was 5.45%.

For leases previously classified as finance leases the entity recognised the carrying amount of the asset and the lease liability at the date of initial application. The measurement principles of NZ IFRS 16 are only applied after that date. The entity had no finance lease under the previous standard.

(i) Practical expedients applied

In applying NZ IFRS 16 for the first time, the group has considered the following practical expedients permitted by the standard:

- Applying single discount rate to a portfolio of leases with reasonable similar characteristics
- Relying on previous assessments on whether lease are onerous as an alternative to performing an impairment review –there were no onerous contracts as 1 April 2019
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases

- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying NZ IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*

	31 March 2020
	$
Operating lease commitments disclosed as at 31 March 2019	1,583,289
Discounted using the lessee's incremental borrowing rate at the date of initial application	(30,885)
Lease liability recognised as at 1 April 2019	1,552,404
Current lease liability	1,541,404
Non-current lease liability	11,000
Lease liability recognised as at 1 April 2019	1,552,404

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

3. REVENUE AND EXPENSES

	Note	31 March 2020 $	31 March 2019 $
(a) Revenue from contracts with customers			
Rendering of services		81,944,681	64,720,786
Sale of goods		-	-
		81,944,681	64,720,786
Timing of revenue recognition			
At a point in time		672,074	696,000
Over time		81,272,607	64,024,786
		81,944,681	64,720,786

The Company operates in a single business segment being the provision of engineering and maintenance support.

	Note	31 March 2020 $	31 March 2019 $
(b) Assets and liabilities related to contracts with customers			
Amounts due from customers for contract work		343,761	-
Total contract assets		343,761	-
Deferred revenue		1,920,902	1,539,191
Amounts due to customers for contract work		3,138,776	6,434,621
Total contract liabilities		5,059,679	7,973,812
(c) Other income			
Other income		770,922	194,650
		770,922	194,650
(d) Cost of Sales and Other expenses include:			
Other employee benefits		27,304,207	23,413,632
Depreciation of property, plant and equipment	11	689,001	716,171
Depreciation of right of use assets	12	1,558,060	-
Intangibles amortisation	13	316,000	65,710
Proposal and business development expenses		108,110	425,797
Rental on operating leases			1,762,171
Facilities		1,969,453	1,775,936
Office expenses		184,270	82,338
Travel, subsistence and secondment costs		233,482	221,967
Management support charges		570,882	504,146
Communications		177,911	246,085
Audit, tax, advisory and legal		375,664	416,880
Insurance		228,760	337,560
Other expenses		6,616,773	4,080,623

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

3. REVENUE AND EXPENSES (Cont'd)

	31 March 2020 $	31 March 2019 $
(e) Net Finance income		
Interest income	3,746,883	29,930
Interest expense - other	(175,043)	-
Financial charges	(70,955)	(13,940)
	3,500,885	15,990

4. AUDITOR'S REMUNERATION

	31 March 2020 $	31 March 2019 $
During the year the following fees were paid or payable for services provided by the auditor for:		
Audit of the financial statements	57,860	52,000
	57,860	52,000

5. KEY MANAGEMENT PERSONNEL DISCLOSURES

	31 March 2020 $	31 March 2019 $
The remuneration provided to key management personnel falls into the following categories:		
Salary and fees	1,659,361	1,370,000
Superannuation	28,724	20,000
	1,688,085	1,390,000

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

6. INCOME TAX

	31 March 2020 $	31 March 2019 $
Major components of income tax expense for the years ended 31 March 2020 and 31 March 2019 are:		
Current income tax		
Current income tax expense / (benefit)	3,476,412	1,639,033
Adjustments in respect of current income tax of previous years	6,656	(4,395)
	3,483,068	1,634,638
Deferred income tax		
Relating to origination and reversal of temporary differences	(225,396)	(135,000)
Adjustments in respect of deferred tax from previous years	-	-
Income tax expense / (benefit) reported in the Statement of Comprehensive Income	3,257,671	1,499,638

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 2019 and 31 March 2020 is as follows:

	31 March 2020 $	31 March 2019 $
Accounting profit / (loss) before income tax	11,555,865	5,269,760
Tax at the New Zealand tax rate of 28% (2019/20: 28%)	3,235,642	1,475,533
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Entertainment expenses	15,373	28,500
Donations	-	-
Other investments	-	-
Prior year adjustments	6,656	(4,395)
Income tax expense / (benefit) reported in the Statement of Comprehensive Income	3,257,671	1,499,638
Effective rate	28%	28%

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

6. INCOME TAX (Cont'd)

	31 March 2020	*31 March 2019*
	$	*$*
Deferred income tax		
Deferred income tax assets		
Property, plant & equipment	94,716	108,347
Inventory	70,679	70,679
Provisions	1,284,445	1,045,133
Unearned income	0	0
Trade Creditors	1,232	1,232
Lease liabilities	340	0
Accrued expenses not deductible	0	0
	1,451,412	1,225,391
Deferred income tax liabilities		
Property, plant & equipment	625	0
	625	0
Net deferred income tax assets	1,450,787	1,225,391

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

7. CASH AND CASH EQUIVALENTS

	31 March 2020 $	31 March 2019 $
a) Reconciliation of the operating profit after tax to the net cash flows from operating activities		
Net profit for the year	8,298,194	3,770,122
Adjustments for:		
Depreciation of property, plant, and equipment	689,001	716,000
Depreciation of right-of-use assets	1,558,060	
Amortisation of intangible assets	316,000	66,000
Net loss on disposal of fixed assets	-	1,000
Share of net profit of joint venture	-	-
Finance costs	(3,500,885)	(29,930)
Changes in assets and liabilities:		
Decrease in trade and other receivables	(1,437,277)	1,906,758
(Increase) / Decrease in contract assets	(343,761)	-
(Increase) / Decrease in inventories	193,558	(357,000)
Increase / (Decrease) in trade and other payables	4,854,191	(336,000)
Increase / (Decrease) in contract liabilities	(225,396)	6,270,000
(Increase) in deferred income tax asset	(2,914,133)	(135,000)
Increase in provisions	203,867	22,000
Cash inflow / (outflow) from operating activities	7,691,419	11,893,950

b) Reconciliation of Cash

	31 March 2020 $	31 March 2019 $
Cash balance comprises		
- Cash and cash equivalents	7,816,999	2,422,880
	7,816,999	2,422,880

c) Facilities

The Company has an overdraft facility of $2,500,000 (2018/19: $2,500,000) of which $0 (2018/19: $0) was used at year end. The facility is fully backed by a guarantee provided by Babcock International Group Plc.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

8. TRADE AND OTHER RECEIVABLES

	31 March 2020	31 March 2019
	$	$
Current		
Trade receivables	3,210,939	1,695,558
Amounts owed by related parties	339,264	310,692
Prepayments	76,656	120,170
Other Debtors	7,951	42,365
	3,634,810	2,168,785
Other Receivables		
Short-term loans to related parties	13,169,412	27,600,000
	13,169,412	27,600,000

9. INVENTORIES

	31 March 2020	31 March 2019
	$	$
Work in progress	224,947	497,316
Finished Goods – at cost	294,178	215,366
	519,125	712,682

Inventories recognised as an expense during the year amounted to $13,417,715 (2018/19: $6,116,000). These were included in cost of sales.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

10. PROPERTY, PLANT & EQUIPMENT

	Leasehold Improvements	Plant and Equipment	Motor Vehicles	Total
	$	$	$	$
Cost:				
at 31 March 2018	345,000	9,011,000	453,000	9,809,000
Additions	11,000	125,000	-	136,000
Disposals		(1,000)		(1,000)
at 31 March 2019	356,000	9,135,000	453,000	9,944,000
Additions	13,724	452,075	36,000	501,800
Disposals		(4,075)		(4,075)
at 31 March 2020	369,724	9,583,000	489,000	10,441,724
Accumulated Depreciation and Impairment:				
at 31 March 2018	(218,000)	(6,754,000)	(313,000)	(7,285,000)
Depreciation for the year	(26,000)	(646,000)	(44,000)	(716,000)
Disposed during the year		12,000		12,000
at 31 March 2019	(244,000)	(7,388,000)	(357,000)	(7,989,000)
Depreciation for the year	(28,000)	(611,001)	(50,000)	(689,001)
Disposed during the year		4,075		4,075
at 31 March 2020	(272,000)	(7,994,926)	(407,000)	(8,673,926)
Net book value at 31 March 2020	97,724	1,588,074	82,000	1,767,798
Net book value at 31 March 2019	112,000	1,747,000	96,000	1,955,000

11. LEASES

	31 March 2020	31 March 2019 *
	$	$
(i) Amounts recognised in the balance sheet		
Right-of-use assets		
Property	2,811,839	1,365,436
Plant and Equipment	143,486	31,176
	2,955,325	1,396,612

* In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under NZ IAS 17 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the group's borrowings. For adjustments recognised on adoption of NZ IFRS 16 on 1 April 2019, please refer to note 2.

Additions to the right-of-use assets during the 2020 financial year were $3,232,187.

Lease liabilities

Current	1,700,243	1,541,404
Non-current	1,412,046	11,000
	3,112,289	1,552,404

(ii) Amounts recognised in the profit or loss

	31 March 2020	31 March 2019
	$	$
Depreciation charge right-of-use assets		
Property	(1,526,370)	-
Plant and Equipment	(31,690)	-
	(1,558,060)	-
Interest expense (included in finance cost)	(175,043)	-

The total cash outflow for leases in 2020 was $1,717,932.

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

The group leases the Dockyard Facilities and vehicles. 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.

11. LEASES (Cont'd)

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

11. LEASES (Cont'd)

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.

12. INTANGIBLES

	Total $
Cost:	
at 31 March 2018	1,564,000
Additions	302,000
at 31 March 2019	1,866,000
Additions	145,000
at 31 March 2020	2,011,000
Accumulated Amortisation	
at 31 March 2018	(912,000)
Amortisation for the year	(66,000)
at 31 March 2019	(978,000)
Amortisation for the year	(316,000)
Disposed during the year	-
at 31 March 2020	(1,294,000)
Net book value at 31 March 2020	717,000
Net book value at 31 March 2019	888,000

Intangible assets represent capitalisation of software.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

13. TRADE AND OTHER PAYABLES

	31 March 2020	31 March 2019
	$	$
Trade payables		
Amounts owed to related parties	1,856,499	178,000
Employee entitlements	500,021	343,446
Lease incentive	-	-
Other payables	5,234,926	3,079,183
	13,893,843	7,361,193

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

14. PROVISIONS

	Warranty Provision	Annual Leave Provision	Long Service Leave	Total
	$	$	$	$
At 31 March 2019	66,069	1,645,812	1,191,238	2,903,119
Additional provisions recognised	-	1,415,818	118,932	1,534,750
Credited to the profit or loss	-	(1,218,637)	(112,247)	(1,330,884)
At 31 March 2020	66,069	1,842,993	1,197,923	3,106,986

	31 March 2020	31 March 2019
	$	$
Current	2,120,209	1,972,133
Non-current	986,777	930,986
	3,106,986	2,903,119

i) The warranty provision is considered to be a current liability as at 31 March 2020 (current as at 31 March 2019).

ii) The provision for annual leave is considered to be a current liability as at 31 March 2020 (current as at 31 March 2019).

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.

15. CONTRIBUTED EQUITY AND RESERVES

	31 March 2020	31 March 2019
	$	$
Issued and Paid Up Capital:		
Ordinary shares	2,000,000	2,000,000
	2,000,000	2,000,000

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

15. CONTRIBUTED EQUITY AND RESERVES (Cont'd)

Retained Earnings	31 March 2020	31 March 2019

	$	$
Balance at 31 March 2019	17,656,273	13,886,151
Net Profit for the year	8,406,257	3,770,122
IFRS 16 Balance at 31 March 2019	(155,748)	-
Other Comprehensive Income	-	-
Dividend	(19,675,015)	-
Balance at 31 March 2020	6,231,767	17,656,273

16. COMMITMENTS AND CONTINGENCIES

	31 March 2020 $	31 March 2019 $
Operating leases (non-cancellable)		
- Not later than one year	-	1,571,301
- After one year but not more than five years	-	11,988
- After five years	-	-
	-	1,583,289

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

17. FINANCIAL INSTRUMENTS

(a) Terms, conditions and accounting policies

The Company's 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	10	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	10	Amounts (other than trade debts) receivable from related parties/entities are carried at nominal amounts due. Interest (when charged) is taken up as income on an accrual basis.	Details of the terms and conditions are set out in Note 20.
Cash and cash equivalents	11	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 20.
Derivatives	16	Derivatives are only used for economic hedging purposes and not as speculative instruments.	

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

17. FINANCIAL INSTRUMENTS (Cont'd)

(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 its functional currency. As a result, the Company's non-dollar revenues, profits, assets, liabilities and cash flows can be affected by movements in exchange rates. The Company seeks to minimise its 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(h).

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 construction 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 (2018/19: $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 objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and finance leases.

Interest rate risk

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

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

17. FINANCIAL INSTRUMENTS (Cont'd)

(c) Interest Rate Risk

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

Year ended 31 March 2020						
Floating interest	*Within 1 year $*	*1 - 2 years $*	*2 - 3 years $*	*3 - 4 years $*	*More than 5 years $*	Total $
Cash	7,816,999	-	-	-	-	7,816,999
Weighted average effective interest rate	*0.00%*					
Bank Overdraft	-	-	-	-	-	-
Weighted average effective interest rate	*0.00%*					

Year ended 31 March 2019						
Floating interest	*Within 1 year $*	*1 - 2 years $*	*2 - 3 years $*	*3 - 4 years $*	*More than 5 years $*	Total $
Cash	2,422,880	-	-	-	-	2,422,880
Weighted average effective interest rate	*0.00%*					
Bank Overdraft	-	-	-	-	-	-
Weighted average effective interest rate	*0.00%*					

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2020

18. 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 13):

There were no material transactions/loans to or from directors and/or other key management personnel during the year. All transaction were made on normal commercial terms and conditions.

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	2020	-		825,050		222,784
	2019	-	-	-	8,000,000	-
Babcock Marine Holdings (UK) Limited	2020	-		-	13,169,412	151,659
	2019	-	-	-	19,600,000	-
Babcock Pty Ltd	2020	-		930,552	237,110	1,028,092
	2019	-	21,000	504,000	16,000	11,000
Babcock Pty Ltd - FX Hedging	2020	-			102,153	-
	2019	-		579,000	212,869	-
Babcock Information Services	2020	95,670		897,206		453,682
	2019	-	142,000	853,000	35,823	160,000
Babcock Devonport Royal Dockyard	2020	-		16,765		282
	2019	-	46,000	57,000	46,000	7,000
Total Balance				31-Mar-20	13,508,676	1,856,499
				31-Mar-19	27,910,692	178,000

Independent auditor's report

To the directors of Babcock (NZ) Ltd

We have audited the financial statements, which comprise:

- the statement of financial position as at 31 March 2020;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cashflows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Babcock (NZ) Ltd (the Company), including its subsidiary (the Group), present fairly, in all material respects, the financial position of the Group as at 31 March 2020, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards Reduced Disclosure Regime (NZ IFRS RDR).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the 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.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not, express any form of assurance conclusion on the other information.

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, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

PricewaterhouseCoopers, ABN 52 780 433 757
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T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS RDR, and for such internal control as the Directors 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's directors, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's directors, as a body, for our audit work, for this report or for the opinions we have formed.

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

For and on behalf of:

PRICEWATERHOUSECOOPERS

Chartered Accountants
9 October 2020

Adelaide

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

PricewaterhouseCoopers was the audit firm appointed to undertake the audit of Babcock (NZ) Ltd for the year ended 31 March 2020. I was responsible for the execution of the audit and delivery of our firm's auditor's report. The audit work was completed on 9 October 2020 and an unqualified opinion was issued.

Julian McCarthy
Partner