

Rosyth Royal Dockyard Limited
Annual report
For the year ended 31 March 2016
Company registration number:
SC101959



Rosyth Royal Dockyard Limited

Directors and advisors

Current Directors

I S Urquhart
A A Bethel CBE
F Martinelli
D M Jones
J A Donaldson
J W Howie
I S Donnelly

Company secretary

J M Wood

Registered office

Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Rosyth Royal Dockyard Limited

Strategic report for the year ended 31 March 2016

The directors present their Strategic report on the Company for the year ended 31 March 2016.

Principal activities

The principal activities of the Company are the supply of the services of employees and assets to other Babcock International Group Plc companies, carrying out the Submarine Dismantling Project (SDP), leasing of surplus property to commercial tenants and cargo handling carried out by the commercial port business.

Review of the business

	2016	2015
	£000	£000
Revenue	96,235	90,445
Profit / (loss) for the financial year	2,549	(1,545)

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

The company continued to make its employees and assets available to other Babcock International Group PLC companies and is also engaged in leasing land and buildings to commercial tenants and is currently undertaking works in relation to the MoD's submarine dismantling project. The company continues to grow its port business with both bulk and specialist project cargoes.

The leasing of surplus buildings and land to commercial tenants continues to meet expectations with high occupancy levels and rental fees in line with current market pricing. The port business continues to attract new customers, and deliveries of aggregate and timber have been in line with our plans.

Work to equip Rosyth dockyard with the necessary infrastructure to enable the Submarine Dismantling Project (SDP) to commence is underway. Under the current Stage 1 Planner phase Dock no. 2 is being provided with a new dock gate, a gantry crane, a specially designed modular waste removal facility, a refurbished submarine docking cradle, new office, amenity and health physics accommodation and an active waste handling facility. The infrastructure work is scheduled to complete in December 2016 and will enable Low Level Waste (LLW) removal from the demonstrator submarine to commence. The commercial arrangements for removing the LLW from the demonstrator are currently being discussed with the Ministry of Defence (MoD), whilst the responsibility for the processing and disposal of the LLW will remain with the MoD and will be carried out off-site. The infrastructure required to remove Intermediate Level Waste (ILW) from the demonstrator will be procured under a future stage 2 Planner phase.

During the year the company has agreed a series of actions and streams of activity (collectively referred to as the Rosyth Future Business Arrangements (RFBA)) which contribute to the transformation and strategic rationalisation of a range of MoD legacy liabilities which resulted from the sale of the dockyard agreement in 1997.

During the year the company implemented changes in relation to the Rosyth Royal Dockyard

Defined Benefit Pension Scheme, in order to cap pensionable salaries and to introduce a maximum service level.

Strategic report for the year ended 31 March 2016 (continued)**Principal risks and uncertainties**

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

The key risks and uncertainties affecting the Company are considered to be related to contractual performance, the political and regulatory environment, and exposure to defined benefit pension schemes. The directors manage this risk by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

The group plans to continue with the leasing of land and buildings to commercial tenants, to support the MoD programme of submarine dismantling and to develop additional business opportunities related to the exploitation of the Rosyth site.

As part of the Scottish Parliament review of key national infrastructure projects, additional container freight capacity on the Forth was included in the National Planning Framework (NPF) 3 anticipating that the proposals for an International Container Terminal at the west end of the Rosyth site would progress through the marine licensing consent process. In support of this marine licence consenting process a comprehensive range of exploratory work has been carried out and an application with supporting information has been submitted to Marine Scotland for Marine Licences dredge and construct. It is expected that a marine licence will be granted prior to March 2017.

The directors consider that the development of the additional business does not present any significant risks to the company.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs. 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 32 to 34 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report

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

Rosyth Royal Dockyard Limited

Strategic report for the year ended 31 March 2016 (continued)

Financial risk management (continued)

Price risk

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

Credit risk

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

Liquidity risk

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

Interest rate cash flow risk

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

Strategic report for the year ended 31 March 2016 (continued)**Key performance indicators**

The marine activities of the group are managed on a divisional basis. The following financial and non-financial key performance indicators (KPIs) have been identified. These reflect the internal benchmarks that are used to measure the success of the business and strategy.

	2016	2015	
Revenue Growth	6.4%	12.3%	<p>Increase in revenue when compared to that in the previous year.</p> <p>The growth primarily reflects the greater workload on the submarine dismantling programme which commenced in the prior year.</p>
Operating Return on Revenue	5.7%	6.4%	<p>Operating profit expressed as a percentage of revenue.</p> <p>The return has remained broadly consistent with the prior year.</p>
Headcount growth	0.5%	8.1%	<p>Increase in the number of employees at the end of the year compared to the start of the year.</p> <p>The small increase reflects stability in the number of employees engaged by the company's parent on the QEC aircraft carrier contract.</p>
Occupancy levels for leased properties	93.2%	92.8%	<p>Area leased to external tenants compared with that available for leasing.</p> <p>Demonstrates continued high occupancy of available space.</p>
Total injuries per 100,000 hours worked	2.1	3.6	<p>The data is for all reported injuries.</p> <p>Health and safety is a core value for the Company, the reduced accident rate reflects continuing good performance.</p>
Number of Apprentices	100	79	<p>Number at the end of the year.</p> <p>Apprentices are primarily engaged by the parent company on the QEC aircraft carrier contract.</p>

Rosyth Royal Dockyard Limited

Strategic report for the year ended 31 March 2016 (continued)

Key performance indicators (continued)

The growth and performance of Babcock Marine & Technology, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 28 to 35 and 36 to 41 of the annual report of Babcock International Group Plc, which does not form part of this report.

On behalf of the board



D M Jones

Director

1 July 2016

Directors' report for the year ended 31 March 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Dividends

No dividends were declared or paid during the financial year (2015: £nil).

Future developments

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

Directors

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

I S Urquhart
A A Bethel CBE
F Martinelli
D M Jones
J A Donaldson
J W Howie
I S Donnelly

Employment of disabled persons

The policy of the Company is to give full consideration to applications for employment from disabled persons who have the aptitudes and abilities to meet the requirements of the job. An employee who becomes disabled will continue to be employed where possible under the same terms and conditions as well as making any reasonable adjustment to the environment to support their employment. Training and career development applies wherever appropriate to all employees, including disabled persons.

Employee involvement

The company communicates regularly with its employees in briefings and discussions, by written communications on specific topics and on more general issues through the daily bulletin and "Newslines". The Company routinely discusses issues affecting its employees with the employees' trade unions' representatives. This interaction is further enhanced through the Employee Engagement Excellence programme. During the year the company issued and communicated through employee engagement sessions the 'GOLD Challenge 2016' document which described the company's achievements in the past year and the plans and challenges for the year ahead. Employees can share in the fortunes of the group by electing to join the Babcock All Employee Share Option Plan (AESOP).

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. This commitment to Health & Safety excellence has led the company to seek to achieve certification in this area and the group was successful in maintaining certification to the OHSAS18001 standard during the 2015/16 financial year.

Directors' report for the year ended 31 March 2016 (continued)

Safety policy (continued)

The strategic focus on health and safety performance, behaviour and culture continued throughout the financial year, managed by a joint team drawn from across the business with regular performance feedback to all employees. The Company expanded the Visible Leadership Programme during the year to include customer representatives and alliance partners whereby each senior manager visits a different area of the business each month to discuss health and safety issues with the workforce. The rate of reportable accidents per 100,000 hours of work during the financial year was 0.23 (2015 = 0.18).

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. 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.

We aim to achieve the highest standards in environmental management and to successfully maintain our existing ISO14001 Certification and continually seek and implement further environmental improvements.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' report for the year ended 31 March 2016 (continued)

Going concern statement

The company had net liabilities at 31 March 2016, primarily due to the pension scheme deficit. The directors believe that, having regard to the company's prospects for future business, and having agreed a recovery plan for the pension scheme deficit with the scheme's trustees, the company remains a going concern. Further, Babcock Marine (Rosyth) Limited, the company's immediate parent undertaking, has confirmed its intention to ensure that the company is able to meet its liabilities as they fall due.

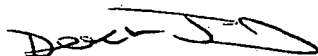
Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information

On behalf of the board



D M Jones

Director

1 July 2016

Rosyth Royal Dockyard Limited

Independent auditors' report to the members of Rosyth Royal Dockyard Limited

Report on the financial statements

Our opinion

In our opinion, Rosyth Royal Dockyard Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Rosyth Royal Dockyard Limited's financial statements comprise:

- the balance sheet as at 31 March 2016;
- the Income statement and the Statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgments, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Rosyth Royal Dockyard Limited
(continued)

Other matters on which we are required to report by exception *(continued)*

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland)) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

Rosyth Royal Dockyard Limited

Independent auditors' report to the members of Rosyth Royal Dockyard Limited
(continued)

What an audit of financial statements involves *(continued)*

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Martin Cowie (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
1 July 2016

Rosyth Royal Dockyard Limited

Income statement

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Revenue	4	96,235	90,445
Cost of sales		<u>(90,712)</u>	<u>(84,614)</u>
Operating profit and profit on ordinary activities before interest and taxation	6	5,523	5,831
Finance income	5	17	1
Other finance costs - pensions	19	<u>(2,956)</u>	<u>(7,296)</u>
Profit / (loss) on ordinary activities before income tax		2,584	(1,464)
Income tax expense	10	<u>(35)</u>	<u>(81)</u>
Profit / (loss) for the year		<u>2,549</u>	<u>(1,545)</u>

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2016

	Note	2016 £000	2015 £000
Profit / (loss) for the financial year		<u>2,549</u>	<u>(1,545)</u>
Other comprehensive (expense) / income:			
<i>Items that will not be subsequently reclassified to income statement:</i>			
(Loss) / gain on remeasurement of net defined benefit obligation	19	(56,980)	25,261
Total comprehensive (expense) / income for the year		<u>(54,431)</u>	<u>23,716</u>

Rosyth Royal Dockyard Limited

Balance sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
Non-current assets			
Tangible fixed assets	11	44,935	47,609
Investments in subsidiaries	12	-	-
		<u>44,935</u>	<u>47,609</u>
Current assets			
Trade and other receivables	13	41,436	43,729
Cash and cash equivalents		607	604
		<u>42,043</u>	<u>44,333</u>
Net current assets			
		<u>42,043</u>	<u>44,333</u>
Total assets less current liabilities		<u>86,978</u>	<u>91,942</u>
Gross pension assets	19	-	103
Gross pension liabilities	19	(140,709)	(91,345)
		<u>(53,731)</u>	<u>700</u>
Net (liabilities) / assets			
		<u>(53,731)</u>	<u>700</u>
Equity			
Called up share capital	15	250	250
Share premium		32,300	32,300
Retained earnings		(86,281)	(31,850)
		<u>(53,731)</u>	<u>700</u>
Total shareholders' (deficit) / funds		<u>(53,731)</u>	<u>700</u>

The notes on pages 16 to 42 are an integral part of these financial statements.

The financial statements on pages 13-42 were approved by the board of directors on 1 July and signed on its behalf by:



D M Jones
Director
1 July 2016

Rosyth Royal Dockyard Limited**Statement of changes in equity***for the year ended 31 March 2016*

	Called-up share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 April 2014	250	32,300	(55,566)	(23,016)
Loss for the year	-	-	(1,545)	(1,545)
Other comprehensive income	-	-	25,261	25,261
Balance at 31 March 2015	250	32,300	(31,850)	700
Profit for the year	-	-	2,549	2,549
Other comprehensive expense	-	-	(56,980)	(56,980)
Balance at 31 March 2016	250	32,300	(86,281)	(53,731)

Rosyth Royal Dockyard Limited

Notes to the financial statements

1 General information

Rosyth Royal Dockyard Limited is a private company which is incorporated and domiciled in the UK. The address of the registered Office is Rosyth Business Park, Rosyth, Dunfermline, Fife KY11 2YD.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 22.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, 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 as applicable to companies using FRS101. 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 Marine (Rosyth) 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) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) 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)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

(c) Long-term service contracts

Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract in accordance with IAS 18 'Revenue' and IAS 11 'Construction contracts'. The stage of completion is determined according to the nature of the specific contract concerned. Methods used to assess the stage of completion include incurred costs as a proportion of total costs; labour hours incurred or earned value of work performed.

The profit element of the revenue attributable to a contract is recognised if the final outcome can be reliably assessed. In order to assess the likely outcome of a contract a full estimated cost of completion is produced which will assess risks and opportunities including cost rates, time, volume and performance for the contract and apply a probability to these being realised. As time elapses, these risks and opportunities will become more predictable. Risks and opportunities will vary dependent on the terms of each contract and the commercial environment of each market. Where certain contracts have pain/gain share arrangements, whereby target cost under/over spends are shared with the customer, these sharing arrangements are included in assessing the overall contract outturn and the expected profit.

Any expected loss on a contract is recognised immediately in the income statement.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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, and investment property, which is shown at fair value, where fair value can practicably be measured. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold and investment property	5% to 20%
Specialised Marine Facilities	5% to 10%
Plant and equipment	12.5% to 33.3%

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

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

Inventory and work in progress

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

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.

Share based payments

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

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

Taxation (continued)

(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 consolidated 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.

Pensions 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 who 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 are measured in accordance with the 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 scheme's 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.

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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.

Finance leases

Assets under finance leases are capitalised and the outstanding capital element of instalments is included in borrowings. The interest element is charged against profits so as to produce a constant periodic rate of charge on the outstanding obligations. Depreciation is calculated to write the assets off over their expected useful lives or over the lease terms where these are shorter.

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 onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of 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.

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

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

Notes to the financial statements (continued)

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.

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

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.

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 disclosures of the defined benefit pension schemes.

Contract accounting

The Company has long term contracts where revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

4 Revenue

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

	2016 £000	2016 £000	2016 £000	2016 £000	2016 £000
	Supply of employees and assets	Submarine dismantling	Property leasing	Commercial Port	Total
By area of activity:					
Rendering of services	85,344	-	-	1,530	86,874
Long term contracts	-	8,534	-	-	8,534
Rental income	-	-	827	-	827
	85,344	8,534	827	1,530	96,235

	2015 £000	2015 £000	2015 £000	2015 £000	2015 £000
	Supply of employees and assets	Submarine dismantling	Property leasing	Commercial Port	Total
By area of activity:					
Rendering of services	83,731	-	-	821	84,552
Long term contracts	-	4,837	-	-	4,837
Rental income	-	-	1,056	-	1,056
	83,731	4,837	1,056	821	90,445

All the revenue in the year ending 31 March 2016 originated in the United Kingdom.

5 Finance income and costs

	2016 £000	2015 £000
Finance income:		
Bank interest	2	1
Capitalised interest on capital expenditure	15	-
	17	1

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

6 Operating profit

Operating profit is stated after charging :

	2016 £000	2015 £000
Depreciation of tangible fixed assets	3,908	4,006
Operating lease charges – land and buildings	9	9

The auditors' remuneration in both the current and prior financial year was borne by the immediate parent company. The amount of such auditors' remuneration was £18,000 (2015: £18,000).

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than 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.

7 Staff costs

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

	2016 Number	2015 Number
By activity:		
Operations	1,572	1,461
Management and administration	144	135
	<u>1,716</u>	<u>1,596</u>

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	64,786	60,821
Social security costs	6,052	5,924
Other pension costs	10,902	13,914
	<u>81,740</u>	<u>80,659</u>

Included in wages and salaries is a total expense of share-based payments of £439,000 (2015: £403,000), of which £439,000 (2015: £403,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £8,567,000 (2015: £11,800,000) in respect of defined benefit schemes and £2,335,000 (2015: £2,114,000) in respect of the defined contribution scheme.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

7 Staff costs (continued)

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

8 Directors' remuneration

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

	2016 £000	2015 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	360	1,162
Defined contribution pension scheme	-	-
	360	1,162

During the year one (2015: two) director remunerated by Rosyth Royal Dockyard Limited exercised share options under long term incentive plans and one (2015: three) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one (2015: three) director under defined benefit pension schemes.

Retirement benefits are accruing to no (2015: nil) directors under defined contribution pension schemes.

Except for one (2015: three) director, 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.

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

	2016 £000	2015 £000
Emoluments (excluding pension contributions)	360	311
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	-	-
Defined benefit pension scheme:		
- Accrued pension at the end of the year	61	58
- Accrued lump sum at the end of the year	-	-

The highest paid director exercised shares under long term incentive plans (2015: the highest paid director exercised share options under long term incentive plans)

Notes to the financial statements (continued)

9 Share based payments

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

During the year the total charge relating to employee share-based payment plans was £439,000 (2015: £403,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £351,000 (2015: £318,000).

The fair value per option granted and the assumptions used in the calculation are as follows:

DBMP, PSPs, DBP and CSOP₁

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria = EPS ROCE %	Fair value per option = TSR Pence	Fair value per option = EPS ROCE Pence	Correlation %	Grant or modification date
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	40%	364.0	1,121.0	46%	11/6/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	30%	374.0	1,121.0	46%	11/6/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	—	1,121.0	46%	11/6/15
2014 PSP	14,196	1,007.0	12.0%	3.5	40%	165.0	1,007.0	46%	29/1/15
2014 DBMP Matching	853,803	1,218.0	15.0%	4.0	40%	536.0	1,218.0	46%	12/6/14
2014 PSP	1,550,135	1,218.0	15.0%	4.0	40%	547.0	1,218.0	46%	12/6/14
2014 DBP	8,736	1,218.0	15.0%	4.0	100%	—	1,218.0	46%	12/6/14
2013 DBMP Matching ²	1,014,364	1,155.0	16.0%	4.0	59%	549.9	1,018.4	46%	15/8/13
2013 PSP ²	1,310,577	1,155.0	16.0%	4.0	39%	559.1	1,018.4	46%	15/8/13
2013 PSP Funding ²	122,015	1,155.0	16.0%	4.0	39%	496.0	933.8	46%	15/8/13
2013 CSOP ²	122,015	1,155.0	16.0%	4.0	39%	84.6	63.1	46%	15/8/13

Both the vesting period and the expected life of all DBMP, PSP and CSOP awards is three years, but for the DBP it is two years. The holders of all awards receive dividends, except for CSOP awards.

The DBMP Matching awards are split evenly between the performance criteria of TSR, EPS and ROCE, whilst the PSP and CSOP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 58,036 matching shares (2015: 45,104 matching shares) at a cost of £0.6 million (2015: £0.6 million).

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan, DBP = 2012 Deferred Bonus Plan and CSOP = 2009 Company Share Option Plan.

2. These DBMP, PSP and CSOP have been restated to take account of the rights issue in May 2015.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

10 Income tax

Tax expense included in income statement

	2016 £000	2015 £000
Current tax:		
UK Corporation tax on profits for the year	-	-
Adjustment in respect of prior year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	(1)	85
Adjustment in respect of prior years	-	-
Impact of change in UK tax rate	36	(4)
Total deferred tax charge / (credit) (note 19)	35	81
Tax on profit on ordinary activities	35	81

The tax expense for the year is lower (2015: higher) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

	2016 £000	2015 £000
Profit / (loss) on ordinary activities before taxation	2,584	(1,464)
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	517	(307)
Effects of:		
Income not subject to tax		
Expenses not deductible for tax purposes	682	824
Deferred tax not provided	(1,503)	(1,309)
Group relief (claimed) / surrendered for nil consideration	303	877
Impact of change in UK tax rate	36	(4)
Tax charge for the year	35	81

In the 2015 Budget, it was announced that the UK corporation tax rate will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate that will apply on reversal.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

11 Tangible fixed assets

	Freehold property £000	Investment property £000	Specialised Marine Facilities £000	Plant and equipment £000	Total £000
Cost					
At 1 April 2015	10,143	2,954	50,597	8,610	72,304
Reclassifications	270	(270)	-	-	-
Additions	697	-	-	537	1,234
Disposals	(204)	(661)	-	(18)	(883)
At 31 March 2016	10,906	2,023	50,597	9,129	72,655
Accumulated depreciation					
At 1 April 2015	(8,282)	(2,916)	(6,200)	(7,297)	(24,695)
Reclassifications	(270)	270	-	-	-
Charge for the year	(271)	(38)	(3,101)	(498)	(3,908)
Disposals	204	661	-	18	883
At 31 March 2016	(8,619)	(2,023)	(9,301)	(7,777)	(27,720)
Net book value					
At 31 March 2016	2,287	-	41,296	1,352	44,935
At 31 March 2015	1,861	38	44,397	1,313	47,609

Investment property comprises a number of buildings (or parts thereof) and areas of land on the Rosyth site. Such property has been accounted for using the cost model. The fair value at year end of properties that can practicably be measured is £2,950,000 (2015: £3,100,000), their net book value under the cost model is nil (2015: £38,000). The valuation was carried out by independent, appropriately qualified valuers. The remainder of the investment property comprises temporarily surplus production and office facilities upon which it is not practicable to place a fair value as they are part owner-occupied and/or integrated with key facilities on the Rosyth site.

The class of assets comprising the specialised marine facilities at Rosyth Royal Dockyard such as docks and jetties was revalued under previous UK GAAP. The Company has opted to treat the carrying value of the assets at the date of transition to IFRS as deemed cost, as permitted by IFRS1 – First Time adoption of IFRS, and to apply the cost model thereafter.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

12 Investments

	2016	2015
	Shares in group undertakings £000	Shares in group undertakings £000
Cost		
At 1 April	-	-
Additions	-	-
Disposals	-	-
Provisions	-	-
Carrying amount at 31 March	-	-

13 Trade and other receivables

	2016 £000	2015 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	41,109	43,367
Deferred tax asset (note 14)	327	362
	41,436	43,729

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

There are two loans (2015: two) to group companies for a total of £19,500,000 (2015: £19,500,000) and for which no interest is charged.

Notes to the financial statements (continued)

14 Deferred taxation

The major components of the deferred tax asset are recorded are as follows:

	Accelerated capital allowances
Deferred tax asset	
At 1 April 2014:	443
- Charged to the income statement	(81)
- (Charged) / credited directly to other comprehensive income	-
At 31 March 2015:	362
- Charged to the income statement	(35)
- (Charged) / credited to other comprehensive income	-
At 31 March 2016:	327

15 Share capital

	2016 £000	2015 £000
Allotted and fully paid		
200,002 ordinary shares of £1 each (2015: 200,022)	200	200
49,998 "A" ordinary shares of £1 each (2015: 49,998)	50	50
	250	250

The Secretary of State for Defence retains a special share in the company, which empowers him to take control of the company under certain circumstances, particularly to safeguard national security. The "A" ordinary shares are non-voting, have no dividend rights and have a deferred right to the return of capital.

16 Dividends

No dividends have been declared or paid (2015: Nil). There are no plans for a final dividend.

17 Guarantees and financial commitments

a) Contingent liabilities

At 31 March 2016 the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £552.2 million (2015: £537.9 million) provided to certain group companies. In addition, the Company at the 31 March 2016 had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £15.0 million).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

17 Guarantees and financial commitments (continued)

b) Operating lease commitments

At 31 March 2016, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	9	-	9	-
- between two and five years	34	-	34	-
- after five years	485	-	494	-
	528	-	537	-

c) Capital Commitments

At 31 March 2016 the Company had capital commitments of £16,306,000 (2015: nil) for the purchase of plant and equipment and the construction of a new building.

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.

There were no (2015: none) other transactions during the year or balances at the end of the year (2015: none) with related parties.

Notes to the financial statements *(continued)*

19 Pension commitments

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees.

The Company is also a contributing employer to a defined benefit scheme (the "Rosyth Royal Dockyard 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 and which has been recognised in these financial statements are detailed in this note.

The Company is also a contributing employer to another defined benefit scheme (the "Babcock International Group 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 and which has been recognised in these financial statements are detailed in this note.

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

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

Rosyth Pension scheme

The IAS 19 valuation has been updated at 31 March 2016 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 2012. The major assumptions used for the IAS 19 valuation were:

	2016 %	2015 %	2014 %
Major assumptions			
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	3.0	3.0	3.4
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £15.9m. The future service rate is 12.0%. 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 £15.9m is £8.7m 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:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	19.2	19.3	19.3
Life expectancy from age 65 (male age 45)	23.2	20.8	20.7

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The changes to the Babcock International Group Plc balance sheet at March 2016 and the changes to the Babcock International Group Plc income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £m	Income statement 2017 £m
Initial assumptions	836,300	11,900
Discount rate assumptions increased by 0.5%	(66,500)	(2,300)
Discount rate assumptions decreased by 0.5%	66,500	1,700
Inflation rate assumptions increased by 0.5%	59,600	2,400
Inflation rate assumptions decreased by 0.5%	(54,400)	(2,200)
Total life expectancy increased by half a year	13,500	600
Total life expectancy decreased by half a year	(13,500)	(500)
Salary increase assumptions increased by 0.5%	3,900	300
Salary increase assumptions decreased by 0.5%	(3,900)	(300)

The weighted average duration of cashflows (years) is 16.

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 2016 were:

Fair value of plan of assets	2016 £'000	2015 £'000
Equities	231,436	195,979
Property	54,468	33,658
Absolute return and multi strategy funds	3,153	14,644
Bonds	128,934	138,975
Matching assets	282,696	381,314
Active position on longevity swaps	(37,909)	(59,613)
Total assets	662,779	704,957
Present market value of liabilities - funded	(836,271)	(817,643)
Gross pension surplus / (deficit)	(173,492)	(112,686)

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.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Analysis of amount charged to the income statement in Babcock International Group Plc	2016 £000	2015 £000
Current service cost	6,121	7,375
Incurred expenses	748	529
Total included within operating profit	6,869	7,904
Net interest cost / (income)	3,651	6,597
Total charged to the income statement	10,520	14,501

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 £4,962,000 for service cost (2015: £5,977,000), £606,000 for incurred expenses (2015: £429,000), and net interest cost of £2,960,000 (2015: £5,348,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2016 £000	2015 £000
Actuarial gain / (loss) recognised in the SOCl	15,733	(104,751)
Experience (losses) / gains	(105,640)	150,263
Other gains / (losses)	23,732	(10,186)
	(66,175)	35,326

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £56,625,000 (2015: £25,321,000 gain).

The equity investments and bonds are valued at bid price.

	2016 £000	2015 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	764,570	591,577
Interest cost	25,875	26,507
Employee contributions	15,889	37
Employer contributions	31	17,717
Benefits paid	(29,001)	(25,623)
Actuarial (loss) / gain	(76,676)	154,355
At 31 March	700,688	764,570

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

	2016 £000	2015 £000
Reconciliation of present value of scheme liabilities		
At 1 April	817,643	695,506
Service cost	6,121	7,375
Incurred expenses	748	529
Interest on liabilities	27,498	30,976
Employee contributions	31	37
Actuarial (gain) / loss – demographics	(12,947)	104,751
Actuarial (gain) / loss – financial	(2,786)	-
Experience (gain) / losses	28,964	4,092
Benefits paid	(29,001)	(25,623)
At 31 March	836,271	817,643

The deficit 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 £140,635,000 (2015: £91,345,000).

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2016 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 1 April 2013. The major assumptions used for the IAS 19 valuation were:

	2016 %	2015 %	2014 %
Major assumptions			
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	2.8	2.8	3.0
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. 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 £18.7m is £6.6m 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.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

19 Pension commitments (continued)

The mortality assumptions used were:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	22.9	23.0	22.8
Life expectancy from age 65 (male age 45)	24.5	24.7	24.3

The changes to the Babcock International Group Plc balance sheet at March 2016 and the changes to the Babcock International Group Plc income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement 2017 £000
Initial assumptions	1,205,800	12,900
Discount rate assumptions increased by 0.5%	(87,800)	(4,400)
Discount rate assumptions decreased by 0.5%	87,800	3,500
Inflation rate assumptions increased by 0.5%	49,900	2,500
Inflation rate assumptions decreased by 0.5%	(46,300)	(2,200)
Total life expectancy increased by half a year	19,100	800
Total life expectancy decreased by half a year	(19,100)	(700)
Salary increase assumptions increased by 0.5%	9,400	700
Salary increase assumptions decreased by 0.5%	(9,400)	(600)

The weighted average duration of cashflows (years) was 16.

Rosyth Royal Dockyard 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 2016 were:

Fair value of plan of assets	2016	2015
	£'000	£'000
Equities	285,320	264,900
Property	95,937	33,567
Absolute return and multi strategy funds	1,588	7,374
Bonds	426,204	402,307
Matching assets	423,129	584,784
Active position on longevity swaps	(50,692)	(39,947)
Total assets	1,181,486	1,252,985
Present market value of liabilities - funded	(1,205,869)	(1,219,048)
Gross pension (deficit) / surplus	(24,383)	33,937

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 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Analysis of amount charged to the income statement in Babcock International Group Plc	2016	2015
	£000	£000
Current service cost	11,712	11,301
Incurred expenses	2,258	1,922
Total included within operating profit	13,970	13,223
Net interest cost / (income)	(1,311)	1,783
Total charged to the income statement	12,659	15,006

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 £36,000 for service cost (2015: £35,000), £7,000 for incurred expenses (2015: £6,000), and net interest credit of £4,000 (2015: £5,000 charge).

Rosyth Royal Dockyard 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")	2016 £000	2015 £000
Actuarial gain / (loss) recognised in the SOCl	21,071	(156,484)
Experience gains/(losses)	(80,237)	247,122
Other gains/(losses)	(9,387)	(22,707)
	<u>(68,553)</u>	<u>67,931</u>

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £355,000 (2015: £60,000).

The equity investments and bonds are valued at bid price.

	2016 £000	2015 £000
Reconciliation of present value of scheme assets in Babcock International Group Plc		
At 1 April	1,292,931	1,050,052
Interest cost	43,539	46,825
Employee contributions	411	515
Employer contributions	22,892	29,296
Benefits paid	(62,146)	(57,067)
Actuarial (loss) / gain	(65,450)	223,310
At 31 March	<u>1,232,177</u>	<u>1,292,931</u>

	2016 £000	2015 £000
Reconciliation of present value of scheme liabilities		
At 1 April	1,219,048	1,081,839
Service cost	11,712	11,301
Incurred expenses	2,258	1,922
Interest on liabilities	40,870	47,866
Employee contributions	411	515
Actuarial (gain) / loss – demographics	(15,784)	162,558
Actuarial (gain) / loss – financial	(5,287)	(6,074)
Experience (gain) / losses	14,787	(23,812)
Benefits paid	(62,146)	(57,067)
At 31 March	<u>1,205,869</u>	<u>1,219,048</u>

The deficit 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 £74,000 (2015: £103,000 surplus).

Notes to the financial statements (continued)

20 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Interest	Direct %	Ultimate%
Rosyth Royal Dockyard Pension Trustees Limited	United Kingdom	100 Ordinary shares	100.0%	100.0%

21 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine (Rosyth) Limited, a company registered in Scotland. 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

22 Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31st March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile total comprehensive income for the financial year ended 31st March 2015 and the total equity as at 1st April 2014 and 31st March 2015 between UK GAAP as previously reported and FRS 101.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

22 Transition to FRS 101 (continued)

Reconciliation of total comprehensive income for the year ended 31 March 2015

	£000	2015 £000
UK GAAP - As previously reported		30,775
Adjustments to profit		
Defined benefit pension schemes	A (6,036)	
Depreciation on capitalised interest	B (6)	
Total adjustment to profit before tax for the financial year	(6,042)	
Deferred tax impact of adjustments:		
- Capitalised interest on capital expenditure	B (4)	
Total adjustment to tax expense	(4)	
Total adjustment to profit for the financial year		(6,046)
Adjustments to other comprehensive income		
Defined benefit pension schemes	A (1,013)	
Total adjustment to other comprehensive income for the year		(1,013)
FRS 101		23,716

Notes to the financial statements (continued)

22 Transition to FRS 101 (continued)

A *Defined Benefit Pension schemes*

The Company is a participating employer in two defined benefit pension schemes that share risks between entities under common control. Under FRS101 each employer must recognise its own share of such a scheme's surplus/deficit in its balance sheet together with its share of the service costs and interest charge in the income statement. The implementation of the 2011 revision to IAS19 'Retirement benefits' also changes the allocation of the movement of the surplus/deficit between the Income statement and the Statement of comprehensive income.

Under previous UK GAAP the Company reported balances and movements in respect of the entire Rosyth Royal Dockyard Pension Scheme, the other employers treated the scheme as if it was a DC scheme. Under FRS101 the financial statements have been restated so that only the Company's share of the scheme is reported. The Company's share is calculated based on the proportion of active members of the scheme that it employs. The requirements of the 2011 revision to IAS19 have also been adopted. The combined effect of the changes is to reduce the deficit reported as at 1 April 2014 and 31 March 2015 by £28,640,000 and £21,341,000 respectively. The expense in the income statement for the year to 31 March 2015 has increased by £6,346,000 and the charge in the Statement of comprehensive income has increased by £953,000.

The Company also participates in the Babcock International Group Pension Scheme. Under previous UK GAAP the Company treated this scheme as if it was a DC scheme. Under FRS101 the Company has recognised its share of the scheme's net surplus/deficit. The share is calculated based on the proportion of active members of the scheme that it employs. The effect of the change is to recognise a deficit of £147,000 at 1 April 2014 and a surplus of £103,000 at 31 March 2015. The expense in the income statement for the year to 31 March 2015 has reduced by £310,000 and a charge of £60,000 has been recognised in the Statement of comprehensive income.

B *Depreciation on capitalised interest*

Under previous UK GAAP, the Company did not capitalise borrowing costs attributable to expenditure incurred on tangible fixed assets prior to their being brought into use. Under FRS101 the Company is required to adopt IAS23 'Borrowing costs' which requires capitalisation of such costs.

The impact is to increase the net book value of fixed assets as at 1 April 2014 by £28,000 and at 31 March 2015 by £22,000. Retained earnings at those dates have increased correspondingly. There is a reduction of £6,000 in the income for the year to 31 March 2015 as a result of the additional depreciation charge arising from this change.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

22 Transition to FRS 101 (continued)

Reconciliation of equity at 1 April 2014 and 31 March 2015

	31 March 2015 £000	1 April 2014 £000
UK GAAP – As previously reported	(20,762)	(51,537)
Defined benefit pension schemes	21,444	28,493
Capitalised interest on fixed asset additions	22	28
Deferred tax impact of adjustments		
- Capitalised interest on capital expenditure	(4)	-
FRS 101	700	(23,016)

C Other Adjustments arising on transition to FRS 101

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustment has arisen which has had no effect on net equity or the income statement:

- an intangible asset in respect of intellectual property rights acquired from the Ministry of Defence and recognised under previous UK GAAP has been de-recognised upon transition to FRS101. The asset had been fully amortised at the date of transition to FRS101.
- a class of tangible fixed assets (the specialised marine facilities at Rosyth Royal Dockyard) was revalued under previous UK GAAP. The Company has opted to treat the carrying value at that date as deemed cost, as permitted by IFRS1 – First Time Adoption of IFRS, and to apply the cost model under IAS16 – Property, Plant and Equipment. The revaluation reserve held under UK GAAP has been transferred to Retained Earnings.