Rosyth Royal Dockyard Limited

Annual report

For the year ended 31 March 2019

Company registration number:

SC101959

Rosyth Royal Dockyard Limited

Directors and advisors

Current Directors
I S Urquhart
D M Jones
J A Donaldson
J W Howie
B R Alexander
W R Watson

Joint company secretaries
J M Wood
Babcock Corporate Secretaries Limited

Registered office
Babcock International
Rosyth Business Park
Rosyth
Dunfermline
Fife
KY11 2YD

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

Strategic report for the year ended 31 March 2019

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

Principal activities

The principal activities of the Company are the supply of the services of employees and assets primarily to Babcock Marine Rosyth Limited, 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

	2019 £000	2018 £000
Revenue	**102,890**	103,622
Profit for the financial year	**3,650**	6,461
Net Liabilities	**(77,001)**	(59,036)

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 primarily to Babcock Marine Rosyth Limited and is also engaged in leasing land and buildings to commercial tenants and is currently undertaking works in relation to the Ministry of Defence (MoD) Submarine Dismantling Project. The Company continues to develop 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 have been in line with plans.

In relation to the Submarine Dismantling Project at Rosyth Dockyard, the demonstration of the removal of low level radioactive waste has been successfully completed on HMS Swiftsure. Over 75 tonnes of solid waste was removed and the submarine has now been returned to the main basin for safe and secure afloat storage. HMS Resolution was docked in No. 2 dock in December 2018 and the low level radioactive waste removal activities have commenced. The contract that has been agreed for Resolution is a Qualifying Defence Contract under the Single Source Regulations. The options assessment for removal of the intermediate level waste (the reactor pressure vessel) continues and it is anticipated that by the end of 2019 a preferred removal option will have been agreed and this will then be developed through the project life cycle.

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 relate 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 70 to 81 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.

The prospects for Babcock's operations at Rosyth are strong with many significant opportunities. The Rosyth International Container Terminal remains one of these future options though is naturally subject to evolving market and economic conditions, as well as the ongoing competing demands within a busy facility. The latest assessment is that the economic environment does not currently support the level of investment required for this project, though this position remains under constant review.

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 35 to 37 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.

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 2019 *(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.

	2019	2018	
Revenue Growth	(0.8)%	8.5%	Decrease in revenue when compared to that in the previous year. **The movements reflects reduced revenues from the supply of employee and assets partially offset by an increased level of revenue from SDP.**
Operating Return on Revenue	6.0%	9.5%	Operating profit expressed as a percentage of revenue. **The reduced return is mainly due to 2018 containing a reduced IAS19 pension cost**
Headcount growth	(10.0%)	(12.9)%	Decrease in the number of employees at the end of the year compared to the start of the year. **The change reflects a reduction in the number of employees engaged by the Company's parent on the QEC aircraft carrier contract.**
Occupancy levels for leased properties	94.1%	94.1%	Area leased to external tenants compared with that available for leasing. **Demonstrates continued high occupancy of available space.**
Total injuries per 100,000 hours worked	1.6	1.4	The data is for all reported injuries. **Health and safety is a core value for the Company. The accident rate reflects continuing good performance.**
Number of Apprentices	69	78	Number at the end of the year. **Apprentices are primarily engaged by the parent company on support to the QEC aircraft carrier and commercial contracts.**

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

Key performance indicators *(continued)*

The growth and performance of Marine, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 40 to 42 of the Group's report, which does not form part of this report.

On behalf of the board

Brian Alexander

B R Alexander

Director

20 December 2019

Directors' report for the year ended 31 March 2019

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

Dividends

No dividends were declared or paid during the financial year (2018: £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
D M Jones
J A Donaldson
J W Howie
J M Dixon (resigned 30 April 2018)
B R Alexander
W R Watson

Employment of disabled persons

The Company encourages an inclusive workplace culture and our policy 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 is disabled, or becomes disabled, will continue to be employed where possible under the same terms and conditions and reasonable adjustments would be made. Training and career development applies wherever appropriate to all employees, including disabled persons to support employees to the best of their ability.

Employee involvement

The company communicates regularly with its employees via briefings and discussions, as well as written communications such as daily bulletins, Toolbox Talks and intranet articles on specific topics. The Marine sector produces a bi-monthly employee magazine, The Source, which includes key employee engagement activities. An Employee App was introduced during the year and this features a range of internal news stories, as well as information on employee benefits and health and safety. This, along with a number of screens across the site display important communications, ensuring that the industrial employees have access to the same information as the office-based teams. The company routinely discusses any issues affecting its employees with representatives from the Trade Unions. 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 2018/19 financial year.

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 continued the Visible Leadership Programme during the year including 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 0.14 (2018 = 0.12).

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 Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

The directors are 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.

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

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

Going concern statement

The Company had net liabilities at 31 March 2019, 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

Brian Alexander

B R Alexander

Director

20 December 2019

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

Report on the audit of the financial statements

Opinion

In our opinion, Rosyth Royal Dockyard Limited's financial statements:

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

We have audited the financial statements, included within the Annual report (the "Annual Report"), which comprise: the balance sheet as at 31 March 2019; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

Reporting on other information *(continued)*

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

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

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

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

Strategic Report and Directors' Report

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

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

Use of this report

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

Other required reporting

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

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

We have no exceptions to report arising from this responsibility.

Kenneth Wilson

Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow

20 December 2019

Rosyth Royal Dockyard Limited

Income statement
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Revenue	4	102,890	103,622
Cost of sales		(96,745)	(93,798)
Operating profit	6	6,145	9,824
Finance income	5	-	200
Other finance costs - pensions	19	(2,972)	(4,124)
Profit on ordinary activities before income tax		3,173	5,900
Income tax expense	10	477	561
Profit for the financial year		3,650	6,461

All of the above results derive from continuing operations.

Statement of comprehensive income
for the year ended 31 March 2019

	Note	2019 £000	2018 £000
Profit for the financial year		3,650	6,461
Other comprehensive (expense)/income:			
Items that will not be subsequently reclassified to income statement:			
(Loss)/gain on remeasurement of net defined benefit obligation	19	(21,615)	17,151
Total comprehensive (expense)/income for the year		(17,965)	23,612

Balance sheet
as at 31 March 2019

	Note	2019 £000	2018 £000
Fixed assets			
Tangible assets	11	55,838	54,108
Investments		-	-
		55,838	54,108
Current assets			
Trade and other receivables	12	20,443	19,966
Cash and cash equivalents		608	608
		21,051	20,574
Current liabilities			
Trade and other payables	17	(16,575)	(8,638)
		(16,575)	(8,638)
Net current assets		4,476	11,936
Total assets less current liabilities		60,314	66,044
Pension liabilities	19	(137,315)	(125,080)
Net liabilities		(77,001)	(59,036)
Equity			
Called up share capital	14	250	250
Share premium account		32,300	32,300
Accumulated losses		(109,551)	(91,586)
Total shareholders' deficit		(77,001)	(59,036)

The notes on pages 16 to 36 are an integral part of these financial statements.

The financial statements on pages 13 to 36 were approved by the board of directors on 20th December 2019 and signed on its behalf by:

Brian Alexander

B R Alexander
Director
20 December 2019

Statement of changes in equity
for the year ended 31 March 2019

	Called up share capital £000	Share premium account £000	Accumulated losses £000	Total Shareholders' deficit £000
Balance at 1 April 2017	250	32,300	(115,198)	(82,648)
Profit for the year	-	-	6,461	6,461
Other comprehensive income	-	-	17,151	17,151
Balance at 31 March 2018	**250**	**32,300**	**(91,586)**	**(59,036)**
Profit for the year	-	-	3,650	3,650
Other comprehensive expense	-	-	(21,615)	(21,615)
Balance at 31 March 2019	**250**	**32,300**	**(109,551)**	**(77,001)**

Notes to the financial statements

1 General information

Rosyth Royal Dockyard Limited is a private company limited by shares which is incorporated and domiciled in England, UK. The address of the registered Office is Babcock International, 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

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using 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. 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

2 Summary of significant accounting policies *(continued)*

- 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'

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.

Adoption of new and revised standards

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

IFRS 9, '*Financial Instruments*' has been adopted in the year (effective 1 January 2018) and replaces IAS 39. The standard introduces new requirements for classifying and measuring financial instruments. The adoption of IFRS 9 has not had any impact on the financial position of the company. Accordingly prior year comparatives have not been restated.

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

Revenue

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

(a) Performance obligations

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

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

(c) Revenue and profit recognition

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

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

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

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

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

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

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. 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.

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.

2 Summary of significant accounting policies *(continued)*

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.

(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 a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines 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 scheme 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 FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Pensions costs and other post-retirement benefits *(continued)*

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

Operating leases

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

Provisions for liabilities

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

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

A provision for 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.

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.

4 Revenue

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

	2019 £000 Supply of employees and assets	2019 £000 Submarine dismantling	2019 £000 Property leasing	2019 £000 Commercial Port	2019 £000 Total
By area of activity:					
Rendering of services - transferred over time	76,023	-	-	469	76,492
Long term contracts - transferred over time	-	25,530	-	-	25,530
Rental income - transferred at a point in time	-	-	868	-	868
	76,023	25,530	868	469	102,890

	2018 £000 Supply of employees and assets	2018 £000 Submarine dismantling	2018 £000 Property leasing	2018 £000 Commercial Port	2018 £000 Total
By area of activity:					
Rendering of services – transferred over time	82,584	-	-	471	83,055
Long term contracts – transferred over time	-	19,709	-	-	19,709
Rental income – transferred at a point in time	-	-	858	-	858
	82,584	19,709	858	471	103,622

All the revenue in the year ended 31 March 2019 originated in the United Kingdom.

5 Finance income

	2019 £000	2018 £000
Finance income:		
Capitalised interest on capital expenditure	-	200
	-	200

Notes to the financial statements *(continued)*

6 Operating profit

Operating profit is stated after charging:

	2019 £000	2018 £000
Depreciation of tangible fixed assets (note 11)	4,029	4,523
Operating lease charges – land and buildings	13	13

The audit fee in both the current and prior financial year was borne by the immediate parent company. The amount of such audit fee was £40,460 (2018: £39,282). Company's auditors, PricewaterhouseCoopers LLP provided no other services other than the statutory audit.

7 Staff costs

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

	2019 Number	2018 Number
By activity:		
Operations	1,146	1,436
Management and administration	131	106
	1,277	1,542

Their aggregate remuneration comprised:

	2019 £000	2018 £000
Wages and salaries	53,729	60,459
Social security costs	6,500	6,345
Other pension costs	12,309	12,835
	72,538	79,639

Included in wages and salaries is a credit in relation to share-based payments of (£8,101) (2018: £324,000 payment), which arise from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £9,574,000 (2018: £10,207,000) in respect of defined benefit schemes and £2,735,000 (2018: £2,628,000) in respect of the defined contribution scheme.

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:

	2019	2018
The remuneration of the directors which was paid by the Company was as follows:	£000	£000
Emoluments (including benefits in-kind)	353	378
Defined contribution pension scheme	-	-
	353	378

During the year two (2018: two) directors remunerated by Rosyth Royal Dockyard Limited exercised share options under long term incentive plans and two (2018: two) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no (2018: nil) directors under defined benefit pension schemes.

Retirement benefits are accruing to no (2018: nil) directors under defined contribution pension schemes.

Except for two (2018: two) directors, 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:

	2019	2018
	£000	£000
Emoluments (excluding pension contributions)	201	225
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	61
- Accrued lump sum at the end of the year	-	-

The highest paid director exercised shares under long term incentive plans (2018: the highest paid director exercised share options under long term incentive plans).

9 Share based payments

The charge to the income statement 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 are included within the Remuneration report, which is provided on pages 101 to 103 of the annual report of Babcock International Group Plc which does not form part of this report.

During the year the total charge relating to employee share-based payment plans was a credit of (£8,101) (2018: £324,000 payment), all of which related to equity-settled share-based payment transactions.

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

DBMP, PSPS, AND DBP[1]

	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
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56%	13/06/18
2018 PSP	1,699,323	856.0	14.0%	4.0	–	370.9	856.0	56%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100%	–	856.0	56%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100%	–	856.0	56%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	–	379.1	974.5	46%	15/06/16
2016 PSP	2,085,427	974.5	14.0%	4.0	–	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	–	396.4	991.0	46%	12/10/16

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years, other than for Executive Directors where the vesting period is three years. The holders of all awards receive dividends.

The DBMP Matching and PSP awards are split evenly between the performances criteria of TSR, EPS and ROCE, except that in 2015 the PSP 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 92,772 matching shares (2018: 79,475 matching shares) at a cost of £0.6 million (2018: £0.6 million).

9 Share based payments *(continued)*

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 82 matching shares vested (2018: nil) leaving a balance of 918 matching shares (2018:1,000 matching shares).

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

10 Income tax expense

Tax expense included in income statement

	2019 £000	2018 £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	(330)	(567)
Adjustments in respect of prior years	(182)	(54)
Impact of change in UK tax rate	35	60
Total deferred tax charge (note 13)	(477)	(561)
Tax on profit	(477)	(561)

The tax expense for the year is lower (2018: lower) than the standard rate of corporation tax in the UK for the year ended 31 March 2019 of 19% (2018: 19%). The differences are explained below:

	2019 £000	2018 £000
Profit before taxation	3,173	5,900
Profit multiplied by standard UK corporation tax rate of 19% (2018: 19%)	603	1,121
Effects of:		
Adjustments in respect of prior years	(182)	(54)
Expenses not deductible for tax purposes	115	161
Deferred tax not provided	(1,765)	(4,165)
Tax losses brought forward, utilised in year	717	2,316

10 Income tax expense *(continued)*

Impact of change in UK tax rate	35	60
Total tax charge for the year	(477)	(561)

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

11 Tangible assets

	Freehold property £000	Investment property £000	Specialised Marine Facilities £000	Plant and equipment £000	Total £000
Cost					
At 1 April 2018	27,414	2,023	50,597	9,774	89,808
Additions	1,423	-	-	4,336	5,759
Disposals	(23)	-	-	-	(23)
At 31 March 2019	28,814	2,023	50,597	14,110	95,544
At 1 April 2018	(9,639)	(2,023)	(15,501)	(8,537)	(35,700)
Charge for the year	(605)	-	(3,100)	(324)	(4,029)
Disposals	23	-	-	-	23
At 31 March 2019	(10,221)	(2,023)	(18,601)	(8,861)	(39,706)
Net book value					
At 31 March 2019	18,593	-	31,996	5,249	55,838
At 31 March 2018	17,775	-	35,096	1,237	54,108

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 £2,900,000 (2018: £2,900,000), their net book value under the cost model is nil (2018: £nil). 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.

Notes to the financial statements *(continued)*

12 Trade and other receivables

	2019 £000	Restated 2018 £000
Amounts falling due within one year:		
Amounts owed from group undertakings	19,500	19,500
Deferred tax asset (note 13)	943	466
	20,443	19,966

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

The balance in 2018 has been restated to show the gross loan receivable from group undertakings, which was previously offset against the current liability.

13 Deferred taxation

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

Deferred tax asset	Accelerated capital allowances £000
At 1 April 2018:	466
- Charged to the income statement	477
- Charged to other comprehensive income	-
At 31 March 2019:	943

14 Called up share capital

	2019 £000	2018 £000
Allotted and fully paid		
200,002 ordinary shares of £1 each (2018: 200,002)	200	200
49,998 "A" ordinary shares of £1 each (2018: 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.

15 Dividends

No dividends have been declared or paid (2018: Nil). There are no plans for a final dividend.

16 Guarantees and financial commitments

a) Contingent liabilities

At 31 March 2019 the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £347.1 million (2018: £347.1 million) provided to certain Group companies. In addition, the Company at the 31 March 2019 had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2018: £nil 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.

b) Operating lease commitments

At 31 March 2019, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2019 Land and buildings £000	2018 Land and buildings £000
Future minimum rentals payable under non-cancellable operating leases:		
- within one year	**13**	13
- between one and five years	**52**	52
- after five years	**728**	741
	793	806

c) Capital Commitments

At 31 March 2019 the Company had capital commitments of £4,074,750 (2018: £nil) for the purchase of plant and equipment and completion of the construction of a new building.

17 Trade and other payables

	2019 £000	Restated 2018 £000
Amounts falling due within one year:		
Amounts owed to parent and group undertakings	**16,575**	8,638
	16,575	8,638

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

Restatement of the prior year balance is addressed in Note 12.

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 (2018: none) other transactions during the year or balances at the end of the year (2018: none) with related parties.

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" (RRDL). 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 scheme 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 in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

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

19 Pension commitments *(continued)*

Rosyth Royal Dockyard Pension scheme

The IAS 19 valuation has been updated at 31 March 2019 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2015. The major assumptions used for the IAS 19 valuation were:

	2019 %	2018 %	2017 %
Major assumptions			
Rate of increase in salaries	**2.3**	2.2	2.3
Rate of increase in pension payment	**3.3**	3.2	3.3
Discount rate	**2.4**	2.6	2.6
Inflation	**3.2**	3.1	2.1

The expected total employer contributions to be made by participating employers to the scheme in 2019/20 are £28.1m. The future service rate is 21.5%. 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 £28.1m is £17.5m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2019 Years	2018 Years	2017 Years
Life expectancy from age 65 (male age 65)	**19.7**	20.2	20.3
Life expectancy from age 65 (male age 45)	**20.7**	21.3	21.5

19 Pension commitments *(continued)*

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

	Defined benefit obligations 2019 £m	Income statement 2020 £m
Initial assumptions	1,009,502	10,918
Discount rate assumptions increased by 0.5%	926,925	7,287
Discount rate assumptions decreased by 0.5%	1,092,079	11,351
Inflation rate assumptions increased by 0.5%	1,081,479	12,989
Inflation rate assumptions decreased by 0.5%	944,288	8,979
Total life expectancy increased by half a year	1,031,408	11,542
Total life expectancy decreased by half a year	987,596	10,294
Salary increase assumptions increased by 0.5%	1,013,742	11,079
Salary increase assumptions decreased by 0.5%	1,005,262	10,757

The weighted average duration of cashflows (years) was 17.

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

Fair value of plan assets	2019 £'000	2018 £'000
Equities	268,771	203,625
Property	62,218	61,197
Absolute return and multi strategy funds	43,008	27,032
Bonds	157,683	186,862
Matching assets	358,037	448,448
Active position on longevity swaps	(57,107)	(66,347)
Total assets	832,610	860,817
Present market value of liabilities - funded	(1,009,503)	(1,019,307)
Gross pension deficit	(176,893)	(158,490)

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

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

Notes to the financial statements *(continued)*

19 Pension commitments *(continued)*

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

Analysis of amount charged to the income statement in Babcock International Group Plc	**2019 £000**	2018 £000
Current service cost	**5,949**	7,112
Past service cost	**2,016**	-
Incurred expenses	**549**	596
Total included within operating profit	**8,514**	7,708
Net interest cost	**3,832**	5,225
Total charged to the income statement	**12,346**	12,933

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 £4,613,000 for current service costs (2018: £5,613,000), £1,563,000 for past service costs (2018: £nil), £426,000 for incurred expenses (2018: £470,000), and net interest cost of £2,972,000 (2018: £4,124,000).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2019 £000**	2018 £000
Actuarial (loss)/gain recognised in the SOCI	**(44,823)**	17,011
Experience gains	**9,327**	17,748
Other gains (losses)	**10,951**	(4,731)
	(24,545)	30,028

The actuarial gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was (£21,615,000) (2018: £17,151,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc	**2019 £000**	**2018 £000**
At 1 April	**927,164**	912,854
Interest on assets	**23,665**	23,603
Employer contributions	**18,309**	31,427
Employee contributions	**17**	13
Benefits paid	**(112,894)**	(49,378)
Actuarial gain	**33,277**	8,645
At 31 March	**889,538**	927,164

Notes to the financial statements *(continued)*

19 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities	**2019 £000**	**2018 £000**
At 1 April	**1,019,307**	1,059,811
Current Service cost	**5,949**	7,112
Incurred expenses	**549**	596
Interest on liabilities	**25,786**	27,267
Employee contributions	**17**	13
Actuarial loss/(gain) – demographics	**290**	(6,787)
Actuarial loss/(gain) – financial	**44,533**	(10,224)
Experience loss/(gain)	**23,950**	(9,103)
Benefits paid	**(112,894)**	(49,378)
Past Service cost	**2,016**	-
At 31 March	**1,009,503**	1,019,307

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 £137,315,000 (2018: £125,080,000).

20 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	**Country**	**Interest**	**Interest %**
Rosyth Royal Dockyard Pension Trustees Limited[1]	United Kingdom	100 Ordinary shares	100.0%

[1] The subsidiary is directly owned and its registered address is c/o Babcock International, Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD

Notes to the financial statements *(continued)*

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