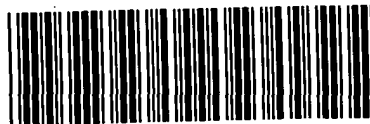


Classification: UNCLASSIFIED

**Rosyth Royal Dockyard Limited**  
**Annual report and financial statements**  
**for the year ended 31 March 2022**

Registered number: **SC101959**

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**COMPANY INFORMATION**

<b>Directors</b>	S Doherty D M Jones J A Donaldson A Coyle W R Watson
<b>Company secretary</b>	J M Wood
<b>Registered Number</b>	<b>SC101959</b>
<b>Registered office</b>	Babcock International Rosyth Business Park Rosyth Dunfermline Fife KY11 2YD
<b>Independent auditor</b>	Deloitte LLP 1 New Street Square, London, EC4A AHQ

**Registered number SC101959**

**CONTENTS**

<b>Strategic report</b>	<b>3</b>
<b>Directors' report</b>	<b>11</b>
<b>Directors' Responsibility statement</b>	<b>15</b>
<b>Independent Auditor's report</b>	<b>16</b>
<b>Income Statement</b>	<b>21</b>
<b>Statement of comprehensive income</b>	<b>22</b>
<b>Statement of Financial Position</b>	<b>23</b>
<b>Statement of changes in equity</b>	<b>25</b>
<b>Notes to the financial statements</b>	<b>26</b>

**Classification:UNCLASSIFIED**

## **Rosyth Royal Dockyard Limited**

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### **Strategic report for the year ended 31 March 2022**

The Directors present their Strategic report on the Company for the year ended 31 March 2022.

#### **Principal activities**

The principal activities of the Company are the design, construction and repair of ships, the provision of specialised design and manufacturing services for the energy and defence sectors, carrying out the Submarine Dismantling Project (SDP), leasing of surplus property to commercial tenants and cargo handling carried out by the commercial port business.

On 1<sup>st</sup> April 2020, the Company purchased the trade and assets of Babcock Marine (Rosyth) Limited, its immediate parent, for consideration of £118,021,000 being the net book value of the assets, satisfied by the issue of 50 £1 ordinary shares at a premium of £118,020,950 or £2,360,419 per share.

#### **Business review**

	<b>2022</b>	<b>Restated 2021</b>
	<b>£'000</b>	<b>£'000</b>
Revenue	<b>286,820</b>	244,734
Loss for the financial year	<b>(32,307)</b>	(17,369)

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

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

The Company continues with the Design & Build contract relating to the Type 31e Programme, although no margin has yet been recognised due to the long term nature of the programme. In addition, the Company maintains and refits the Sandown Class of Mine Countermeasure vessels, is engaged in leasing land and buildings to commercial tenants and is undertaking works in SDP. The Company continues to develop its port business with both bulk and specialist project cargoes, and has continued to diversify into adjacent markets to exploit its engineering and high integrity manufacturing capabilities.

Despite the ongoing significant changes and restrictions imposed during 2021/22 due to the pandemic, the T31 programme has continued to progress well and delivered all contractual milestones during the year. The Engineering team has continued to mature the design and deliver production outputs, enabling the production team to officially cut steel for the First of Class, HMS Venturer, in September 2021 and subsequently Lay Keel in April 2022.

The successful award of the T31 contract has also led to export opportunities being realised in year for both Indonesia and Poland. Work is currently ongoing to assist them in developing their individual requirements and build strategies.

In relation to the Submarine Dismantling Project, the removal of low level radioactive waste continues on the fourth submarine in the programme, Repulse, which is due to complete in 2023. All low level waste was removed from the third boat, Revenge, this is understood to be a world first. The design for the removal of the intermediate level waste (the reactor pressure vessel) has moved past concept and is entering the detailed design phase, with a view to completing the provision of facilities in 2024 prior to commissioning and commencement of intermediate level waste removal in 2024.

**Registered number SC101959**

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**Strategic report for the year ended 31 March 2022 (continued)**

**Business review (continued)**

The Company continues to participate in a wide range of initiatives that are intended to deliver key elements of the MoD's maritime change programme. This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MoD enterprise, whilst ensuring that important naval design, build and support capabilities are retained. The MoD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully. The operative contract of the ToBA framework for the financial year was the Future Maritime Support Programme ("FMSP"), which included all allocated Warship Upkeep, Ships and Submarine fleet time support, along with elements of Engineering Services design activities. It replaces the Maritime Support Delivery Framework ("MSDF") contract which ceased on 31<sup>st</sup> March 2021 and provides continuity of these activities for a further 5 year period plus options to extend up to a further 2 years at the end of the core term. FMSP is being contracted as four separate Qualifying Defence Contracts ("QDCs") under the Defence Reform Act and is subject to the Single Source Contracting Regulations.

The leasing of surplus buildings and land to commercial tenants continues to meet expectations and a renewables technology centre has been established in conjunction with a tenant. Occupancy levels remain high and rental fees in line with current market pricing. The port business continues to attract new customers, deliveries of aggregate have been in line with plans and there have been new consignments of windfarm blades and tower sections imported via the port.

The Company has continued to seek opportunities which complement its MoD activities by moving into the adjacent Maritime Design and Commercial markets, as well as looking to support other programmes which require high integrity manufacturing.

In relation to existing commercial contracts, the Company delivered against key milestones across a range of programmes in support of end customers including Sellafield, Ferguson Marine and Northlink.

Statement of financial position has strengthened during the year with an overall net liability decrease of 95%. PPE has increased by 29% in the year to accommodate the T31e contract (note 12). Trade and other receivables have reduced by 44%, mainly driven by working closely with customers to obtain cash within payment terms and issuing invoices in a timely manner (note 15). Current liabilities have increased by 61%, driven by increase in payments on account and contract accruals due to the increase in activity in the T31e contract (note 16). Non-current liabilities have reduced by 75%, driven by reduction in the retirement benefit deficit (note 24).

**Principal risks and uncertainties**

The Company's ultimate controlling parent is Babcock International Group Plc. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group Plc. The principal risks and uncertainties of Babcock International Group Plc are discussed in its Annual Report for the year ended 31 March 2022.

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 these risk by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and site obligations.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 74 to 87 of the annual report of Babcock International Group Plc, which does not form part of this report.

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**Strategic report for the year ended 31 March 2022 (continued)**

**Key performance indicators**

The Company's activities 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.

	2022	2021	
Revenue Growth from continuing operations	17.2%	60.3%	Increase in turnover for continuing operations when compared to that in the previous year. <b>The increase reflects higher levels of activity on the T31E design and build programme &amp; Indonesia.</b>
Operating Return on Turnover from continuing operations	(2.77)%	(6.05)%	Operating loss expressed as a percentage of turnover. <b>The improvement reflects recognition of Indonesia contract.</b>
Orderbook £'000	1,191,060	1,244,240	Total value of signed contracts at the end of the year. <b>Orderbook is dominated by the T31E design and build contract with MoD (83% at March 2022, 96% at March 2021).</b>
Total injuries per 100,000 hours worked	1.48	1.45	The data is for all reported injuries. <b>Health and safety is a core value for the Company, the accident rate is broadly in line with the prior year.</b>

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The growth and performance of Marine, a division of Babcock International Group Plc, which includes the Company, is discussed on pages 42 to 43 of the annual report of Babcock International Group Plc, which does not form part of this report

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**Strategic report for the year ended 31 March 2022 (continued)**

**S172(1) statement and stakeholder engagement**

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of the Company to have acted in a way that they consider, in good faith, would most likely promote the success of the Company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers, and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly between members of the Company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53 and 101 of the annual report of Babcock International Group Plc, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

**Customers**

**Why they matter to us**

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

**What matters to them**

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

**How the Company engages**

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership programme
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

**Registered number SC101959**

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**Strategic report for the year ended 31 March 2022 (continued)**

**S172(1) statement and stakeholder engagement (continued)**

**Investors**

**Why they matter to us**

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active Investor Relations and Treasury team.

**What matters to them**

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communication
- Governance and management
- Sustainability strategy

**How the Company engages**

- Annual Report and Financial Statements
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Dedicated investor section on Babcock website
- Chair engagement with top shareholders
- Consultation with large shareholders on remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

**Suppliers**

**Why they matter to us**

To support our business operations and strategy, we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and, by working collaboratively with suppliers, we can ensure continuity of supply, minimise risk and bring innovative solutions to our customer. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International group Plc.

**What matters to them**

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows



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**Strategic report for the year ended 31 March 2022 (continued)**

**S172(1) statement and stakeholder engagement (continued)**

**Suppliers (continued)**

**How the Company engages**

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learn' sessions
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

**Regulators**

**Why they matter to us**

We manage complex assets in a highly regulated sectors: nuclear and defence. We are committed to providing safe and effective operations. We must maintain positive and constructive relationships with regulators to be able to operate, to help shape policy in our markets and to position for future opportunities.

**What matters to them**

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

**How the Company engages**

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

**Employees**

**Why they matter to us**

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Group-wide People Strategy as described on pages 19 and 63 - 66 of the annual report of Babcock International group Plc.

**What matters to them**

- Remuneration and reward
- Professional development
- The Company's aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity

**Registered number SC101959**

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**Strategic report for the year ended 31 March 2022 (continued)**

**S172(1) statement and stakeholder engagement (continued)**

**Employees (continued)**

- Our ESG agenda
- Employee networks

**How the Company engages**

- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and board visits
- Free confidential employee support helpline

**Communities**

**Why they matter to us**

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities and helping them rebuild following COVID 19. We have a responsibility to ensure that we support the communities in which we operate, both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. The Company's major sites of operation make it one of the largest employers in the local areas and it remains important for us to add value to these communities.

**What matters to them**

- Employment and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and the local environment
- Support for armed forces community
- Community engagement

**How the Company engages**

- Sponsorship and donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Employer of service leavers, veterans and reserves
- Engagement with local community programmes
- Engagement with local rail and bus companies to plan sustainable and safe travel to work
- Collaboration with Fife & Edinburgh City Council.

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**Strategic report for the year ended 31 March 2022 (continued)**

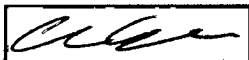
**S172(1) statement and stakeholder engagement (continued)**

Sustainability is an integral part of our corporate strategy and how we do business, and it underpins our corporate Purpose: to create a safe and secure world, together. We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets, and operations by 2040.
2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.
3. We will ensure the safety and wellbeing of all our people.
4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.
5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

These activities form part of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International group Plc.

This report was approved by the board on 12<sup>th</sup> September 2023 and signed on its behalf



Alan Coyle

**Director**

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## **Directors report for the year ended 31 March 2022**

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2022.

### **Dividends**

A dividend of £Nil representing Nil pence per ordinary share was declared and paid in the year (2021: £Nil).

### **Directors and their interests**

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

I S Urquhart	resigned 31 <sup>st</sup> May 2022
S Doherty	appointed 13 <sup>th</sup> June 2022
D M Jones	
J A Donaldson	
B R Alexander	resigned 29 <sup>th</sup> October 2021
A Coyle	appointed 9 <sup>th</sup> December 2021
W R Watson	

The Board is not aware of any contract of significant in relation to the Company in which any Director has, or has had, a material interest.

### **Future developments**

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities. The existing orderbook results in positions having been secured across a number of long-term programmes. The Company plans to continue to support these programmes, and to exploit its engineering and high integrity manufacturing capabilities by continuing to develop adjacent markets in the Nuclear, Oil & Gas and Commercial Marine sectors, and to develop additional business opportunities related to the exploitation of the Rosyth site.

Linked to the MoD T31e programme, a number of export opportunities in addition to Indonesia and Poland are being pursued based on the Arrowhead 140 design. This modular, scalable, open and agile platform enables global customers to adapt the design to their specific requirements.

The contract for provision of support to the build of the UK Dreadnought and US Columbia class submarines was novated to the Company from Babcock Marine Rosyth Ltd in the financial year 2023, this will continue to deliver against existing contracts and, as a key strategic supplier into this programme, is well positioned for further opportunities.

In relation to the Future Maritime Support Programme the Company will continue to focus on developing and implementing efficiency improvements in order to deliver the committed savings in addition to ensuring contractual performance obligations are met or exceeded.

### **Going concern**

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic and Directors report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £402m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation

**Registered number SC101959**

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**Directors report for the year ended 31 March 2022 (continued)**

**Going concern (continued)**

from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group Plc confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group Plc to provide such finance.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Financial risk management**

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discussed in detail with the annual report for Babcock International Group Plc.

**Employment of disabled persons**

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues, and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

**Employee involvement**

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

**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.

**Research and development**

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

**Energy and carbon reporting**

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2022 of its ultimate parent, Babcock International Group Plc.

**Engagement with suppliers and customers**

Engagement with suppliers and customers has been considered in the Strategic Report on page 6.

**Employees**

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our

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**Directors report for the year ended 31 March 2022 (continued)**

**Employees (continued)**

customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 64 and 107 of the annual report for Babcock International Group Plc.

Engagement with UK employees has been considered on page 6 of the Strategic Report.

**Environment**

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

**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.

**Post balance sheet events**

In November 2019, Babcock was awarded the Type 31 contract by the UK Ministry of Defence to deliver five Inspiration Class frigates for the Royal Navy, based on Babcock's Arrowhead 140 hull design, at an average production cost of £250 million per ship. To date, we have recognised over £600 million of revenue but no profit on the programme. Expected to conclude in 2028, the programme remains on schedule against a demanding production plan, despite the restrictions imposed by COVID-19. HMS Venturer, the First in Class ship is due to be structurally complete in December 2023 and construction commenced on the second ship, HMS Active, in January 2023.

Throughout FY23, we have been in dialogue with the customer about the contractual position regarding additional forecast costs resulting from certain material macroeconomic changes that were not foreseen at contract inception. These have led to an increase in the actual and projected programme costs to deliver the programme as planned. We have been unable to reach agreement with our customer as to who is responsible for the additional costs under the contract. As a result, a dispute resolution process (DRP) under the contract has commenced.

Following the commencement of a dispute resolution process (DRP) in April 2023 over responsibility for these incremental costs, we have reassessed the contract outturn on the basis that these are not recovered. To year ending 31 March 2023 this has resulted in the recording of a £100.1 million loss in the year, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The DRP is ongoing.

The related cash impact would be of a similar amount, realised over the remainder of the programme. Any settlement or arbitral award would reverse the provision in part or in full. The position in relation to the Type 31 contract does not affect progress or profitability of the Group's existing Arrowhead 140 export contracts and we continue to be in active discussions with a number of prospective customers.

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**Directors report for the year ended 31 March 2022 (continued)**

**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.

This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

**Appointment of auditors**

At the 2022 Annual General meeting of Babcock International Group plc, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 12<sup>th</sup> September 2023 and signed on its behalf



**Alan Coyle**

**Director**

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## **Directors' Responsibility statement**

The Directors are responsible for preparing the Annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". 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 have been followed, subject to any material departures disclosed and explained in the 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.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**Independent auditor's report to the members of Rosyth Royal Dockyard Limited**

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

**OPINION**

In our opinion the financial statements of Rosyth Royal Dockyard Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2022 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 28.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**CONCLUSIONS RELATING TO GOING CONCERN**

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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## **Independent auditor's report to the members of Rosyth Royal Dockyard Limited**

### **OTHER INFORMATION**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

### **RESPONSIBILITIES OF DIRECTORS**

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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.

### **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (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.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD**

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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**Independent auditor's report to the members of Rosyth Royal Dockyard Limited**

**EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)**

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax and pension legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists, including tax, pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

**Revenue and margin recognition on key long-term contracts with significant management judgment**

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- Obtaining evidence and challenging management on the assumptions used to calculate future transformational savings;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- Enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

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**Independent auditor's report to the members of Rosyth Royal Dockyard Limited**

**EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES,  
INCLUDING FRAUD (CONTINUED)**

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

**OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

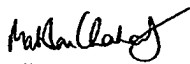
We have nothing to report in respect of these matters.

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**Independent auditor's report to the members of Rosyth Royal Dockyard Limited**

**USE OF OUR REPORT**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Makhan Chahal FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, United Kingdom  
12<sup>th</sup> September 2023

Classification: UNCLASSIFIED

**Rosyth Royal Dockyard Limited**

**Income statement for the year ended 31 March 2022**

	Note	2022 £'000	2021 Restated £'000
Revenue	4	286,820	244,734
Cost of revenue		(287,076)	(252,758)
<b>Gross profit/loss</b>		<b>(256)</b>	<b>(8,024)</b>
Administration and distribution expenses		(8,392)	(6,786)
<b>Operating loss</b>	5	<b>(8,648)</b>	<b>(14,810)</b>
Other finance costs – pensions		(1,938)	(2,498)
Finance income	6	10	177
Finance costs	6	(6,133)	(63)
<b>Loss before taxation</b>		<b>(16,709)</b>	<b>(17,194)</b>
Income tax expense	10	(15,598)	(175)
<b>Loss for the financial year</b>		<b>(32,307)</b>	<b>(17,369)</b>

The notes on page 26-63 form part of these financial statements.

All of the above results derive from continuing operations.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

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**Statement of comprehensive income for the year ended 31 March 2022**

	Note	2022 £'000	Restated 2021 £'000
<b>Loss for the financial year</b>		<b>(32,307)</b>	<b>(17,369)</b>
<b>Other comprehensive income/(expense):</b>			
<i>Items that may be subsequently reclassified to income statement:</i>			
Fair value adjustment of interest rate and foreign exchange hedges		<b>3,403</b>	<b>(3,403)</b>
Tax impact of movement in derivatives		<b>(647)</b>	<b>647</b>
<i>Items that will not be subsequently reclassified to income statement:</i>			
Gain / (loss) on remeasurement of net defined benefit obligation	24	<b>38,845</b>	<b>(68,067)</b>
Tax on net defined benefit obligation	10	<b>(5,183)</b>	<b>12,932</b>
<b>Total comprehensive income/(expense) for the year</b>		<b>4,111</b>	<b>(75,260)</b>

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Statement of financial position as at 31 March 2022**

		2022	2021
		£'000	Restated £'000
<b>Non-current assets</b>	<b>Note</b>		
Intangible assets	11	122,478	123,243
Property, plant and equipment	12	108,275	84,089
Right-of-use assets	13	51	61
Deferred tax assets	10	9,444	29,774
Other receivables due after one year	15	198,814	128,649
		<b>439,062</b>	<b>365,816</b>
<b>Current assets</b>			
Inventories	14	389	443
Trade and other receivables	15	41,154	72,894
Cash and cash equivalents		29,930	1,021
		<b>71,473</b>	<b>74,358</b>
<b>Current Liabilities</b>			
Bank overdraft		-	-
Lease liabilities	13	(13)	(14)
Trade and other payables	16	(465,556)	(289,260)
Other financial liabilities	19	(7,787)	(7,197)
		<b>(401,883)</b>	<b>(222,113)</b>
<b>Net current liabilities</b>			
		<b>(401,883)</b>	<b>(222,113)</b>
<b>Total assets less current liabilities</b>		<b>37,179</b>	<b>143,703</b>
<b>Non-current liabilities</b>			
Lease liabilities	13	(38)	(47)
Retirement benefit deficits	24	(36,624)	(147,871)
Provision for liabilities	18	(753)	(132)
		<b>(37,415)</b>	<b>(148,050)</b>
<b>Net liability</b>		<b>(236)</b>	<b>(4,347)</b>
<b>Equity</b>			
Called up share capital	20	250	250
Share premium account		150,322	150,322
Other reserves		-	(2,756)
Accumulated losses		(150,808)	(152,163)
<b>Total shareholders' funds</b>		<b>(236)</b>	<b>(4,347)</b>

The notes on pages 26-63 are an integral part of these financial statements.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**Registered number SC101959**



**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

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**Statement of financial position as at 31 March 2022 (continued)**

The financial statements on pages 21-63 were approved by the board of Directors on 12<sup>th</sup> September 2023 and signed on its behalf by:



A Coyle  
Director

Registered number: SC101959

**Registered number SC101959**

Statement of changes in equity as at 31 March 2022

	Note	Called up share capital £'000	Share premium account £'000	Hedging reserve £'000	Accumul ated losses £'000	Total shareholde rs' funds £'000
<b>Balance at 1 April 2020</b>						
<b>restated</b>		250	32,300	-	(79,659)	(47,109)
Loss for the year (as restated)		-	-	-	(17,369)	(17,369)
Other comprehensive loss		-	-	(2,756)	(55,135)	(57,891)
Share issue	20	-	118,022	-	-	118,022
<b>Balance at 31 March 2021</b>						
<b>Restated</b>		250	150,322	(2,756)	(152,163)	(4,347)
Loss for the year		-	-	-	(32,307)	(32,307)
Other comprehensive income		-	-	2,756	33,662	36,418
<b>Balance at 31 March 2022</b>		250	150,322	-	(150,808)	(236)

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**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 Scotland, UK. The address of the registered Office is Babcock International, Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD.

The ultimate controlling party is disclosed in note 28. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

**2 Accounting policies**

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

**Basis of preparation**

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'. The Company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards and FRS 101, but makes amendments where necessary in order to comply with the Companies Act 2006.

The company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with FRS 101. In preparing these financial statements, the company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

The Company is a qualifying entity and has applied the following disclosure exemptions in the preparation of the financial statements under FRS 101:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'.
- b) Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations'.
- c) Paragraph 33(c) of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
- d) IFRS 7, 'Financial instruments: Disclosures'.
- e) 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).
- f) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- g) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.
- h) 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).
- i) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
- j) IAS 7, 'Statement of cash flows'
- k) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
- l) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation.

**Registered number SC101959**

## **Notes to the financial statements (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **Basis of preparation (continued)**

- m) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
- n) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group Plc, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual and not as a group.

The financial statements have been prepared 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.

#### **Adoption of new and revised standards**

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a software-as-a-service arrangement. As a result of this decision the Company has revised its accounting policy and will not capitalise costs associated with software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with software-as-a-Service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to software-as-a-service arrangements have been reviewed. This has not had a material impact on the financial statements. The Company will continue to apply this accounting policy to new software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Company's cash flows.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Going concern**

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Strategic and Directors report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £402m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group Plc confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group Plc to provide such finance.

The Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Revenue**

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

**(a) Performance obligations**

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct 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.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the services provided by the Company results in some contracts only having one performance obligation.

**(b) Determination of contract price**

The contract price represents the amount of consideration which the Company expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

**Registered number SC101959**

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Revenue (continued)**

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

As part of this judgement, variable consideration may be constrained. The Company recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

**(c) Allocation of contract price to performance obligations**

Given the bespoke nature of many of the goods and services the Company provides, standalone selling prices are generally not observable and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

**(d) 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.

**Revenue recognised over 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.

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as 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 performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Revenue recognised over time (continued)**

rendered, a contract liability is recognised. See section (h) for further details on how contract assets and liabilities are recognised.

**Revenue recognised at a point in time**

If control of the goods or services is not transferred to the customer 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 receive payment by the Company.

**Assessment of contract profitability**

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outcome assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outcomes are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured as provisions. Further detail is included in the Provisions accounting policy.

**(e) Contract modifications**

**Claims and variations**

The Company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Revenue (continued)**

**Accounting for contract modifications**

The Company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Company considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

**Claims and variations which are not deemed to be contract modifications**

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Company. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Company's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

**(f) Costs of obtaining a contract**

Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

**(g) Costs to fulfil a contract**

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

- i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
- ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

**Registered number SC101959**



**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Revenue (continued)**

**(h) Contract assets and liabilities**

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

**Intangible assets**

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight-line basis as follows:

**a) Goodwill**

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

Goodwill is reviewed annually for impairment.

**b) Intellectual property**

The intellectual assets refer to the intellectual property, which are held on the balance sheet at cost. The carrying value of the intellectual property is amortised straight-line over a useful life of 10 years.

**c) Acquired intangibles**

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years.

Relationships are valued on a contract by contract and customer by customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case.

The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

The carrying value of the brands are amortised over the period in which it is estimated that the particular brands are likely to bring economic benefit via future orders. The maximum amortisation period for existing acquired brands is five years.

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Intangible assets (continued)**

*d) Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

*e) Computer software*

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and five years.

**Property, plant and equipment**

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

**Investments**

Fixed asset investments are stated at cost less accumulated impairment losses.

**Impairment of non-current assets**

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Company performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Company estimates the recoverable amount of the CGU to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Leases**

**The Company as lessee**

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognises a right of use asset and corresponding lease liability at commencement of the lease.

The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

**The Company as lessor**

As a lessor, the Company classifies lessor arrangements as finance or operating leases. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. All lessor arrangements in the Company meet the criteria for a finance lease.

Amounts due from lessees under a finance lease are held on the statement of financial position as a financial asset at an amount equal to the Company's net investment in the lease. The finance lease payments received are treated as finance income and a repayment of principal including initial direct costs. Finance income is allocated over the lease term, with the gross receivable being reviewed for impairment on a regular basis.

**Inventory**

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

## **Notes to the financial statements (continued)**

### **2 Summary of significant accounting policies (continued)**

#### **Contingent liabilities**

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 26 for details of contingent liabilities.

#### **Cash and cash equivalents**

Company cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

#### **Taxation**

##### **a) Current income tax**

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

##### **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 substantively enacted, by the reporting 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. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

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.

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Trade and other receivables**

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

**Finance costs**

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

**Finance income**

Finance income is recognised in the period to which it relates using the effective interest rate method.

**Employee benefits**

**a) Pension obligations**

**Defined benefit schemes**

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 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 so that the Company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using 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.

**Defined contribution schemes**

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

**b) Share-based compensation**

The Company 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.

**c) Holiday pay**

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Financial instruments**

**a) Financial assets and liabilities at amortised cost**

Cash and cash equivalents, trade receivables, amounts due from related parties and other receivables are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other receivables, the Company measures the provision at an amount equal to 12-month expected credit losses.

Trade and other payables, amounts due to related parties, other payables, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

**b) Derivative financial instruments**

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Company designates certain of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised.

**Fair value measurement**

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Company balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

**Dividends**

Dividends are recognised as a liability in the Company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

**Identification of prior year restatements**

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2020 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2020.

**Notes to the financial statements (continued)**

**2 Summary of significant accounting policies (continued)**

**Foreign currencies**

**a) Functional and presentation currency**

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.

**b) Transactions and balances**

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional 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 reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

**3 Critical accounting estimates and judgements**

In the course of preparation of the financial statements judgements and estimates have been made in applying the Company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

**Critical accounting judgements**

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Company's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

**Revenue and profit recognition**

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

**Notes to the financial statements (continued)**

**3 Critical accounting estimates and judgements (continued)**

**Key sources of estimation uncertainty**

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

**Revenue and profit recognition**

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.

**Defined benefit pension schemes obligations**

The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 24.

**Inflation**

The level to which the Company's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Company's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.



**Classification: UNCLASSIFIED**  
**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:

	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000	2022 £'000
	Naval Support	Submarine dismantling	Property leasing	Vessel Build	Marine Design & commercial	Total
By area of activity:						
Sale of goods – over time	11,547	29,713	-	224,264	20,581	286,105
Rental income	-	-	715	-	-	715
	<b>11,547</b>	<b>29,713</b>	<b>715</b>	<b>224,264</b>	<b>20,581</b>	<b>286,820</b>
	2021 £'000 Restated	2021 £'000	2021 £'000	2021 £'000	2021 £'000 Restated Marine Design & commercial	2021 £'000 Restated
	Naval Support	Submarine dismantling	Property leasing	Vessel Build		Total
By area of activity:						
Sale of goods – over time	10,117	25,679	-	189,889	18,032	243,717
Rental income	-	-	1,017	-	-	1,017
	<b>10,117</b>	<b>25,679</b>	<b>1,017</b>	<b>189,889</b>	<b>18,032</b>	<b>244,734</b>

All the revenue in the year ended 31 March 2022 originated in the United Kingdom.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**5 Operating loss**

Operating loss is stated after charging:

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation of property, plant and equipment (Note 12)	<b>5,078</b>	<b>4,899</b>
Right of use depreciation (Note 13)	<b>10</b>	<b>11</b>
Amortisation of intangible assets (Note 11)	<b>765</b>	<b>63</b>
Operating lease charges – short term leases (Note 13)	<b>28</b>	<b>16</b>
Operating leases charges – low value leases (Note 13)	<b>96</b>	<b>56</b>
Audit fees payable to the Company's auditor	<b>268</b>	<b>108</b>

Fees paid to the company's auditors, Deloitte LLP and its associates (2022), PricewaterhouseCoopers LLP and its associates (2021) are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group Plc.

**6 Finance income and costs**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
<b>Finance income:</b>		
Bank interest income	-	7
Loan interest receivable from group undertakings	<b>10</b>	<b>10</b>
Capitalised interest on capital expenditure	-	160
	<b>10</b>	<b>177</b>
<b>Finance costs:</b>		
Bank borrowings	<b>(1,002)</b>	<b>(60)</b>
Lease interest	<b>(3)</b>	<b>(3)</b>
Fair value movement on derivatives	<b>(5,128)</b>	-
	<b>(6,133)</b>	<b>(63)</b>

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**7 Staff costs**

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

	2022 Number	*Restated 2021 Number
<b>By activity:</b>		
Operations	1,336	1,280
Management and administration	152	156
	<b>1,488</b>	<b>1,436</b>

Their aggregate remuneration comprised:

	2022 £'000	*Restated 2021 £'000
Wages and salaries	61,959	58,645
Social security costs	6,853	6,217
Pension costs – defined contribution plans (note 24)	9,585	6,621
Pension costs – defined benefit plans (note 24)	3,064	10,618
Share based payments (note 9)	43	40
	<b>81,504</b>	<b>82,142</b>

\*During the year the average number of employees recharged to other Babcock entities was 285 (2021: 281). The total cost recharged included in the above was £16,564,726 (2021: £16,004,166). FY21 note information has been restated to include the recharge information which was previously omitted.

**8 Directors' emoluments**

The emoluments of the Directors, including pension contributions, paid in respect of services provided to the Company were as follows:

	2022 £'000	2021 £'000
The emoluments of the directors which was paid by the Company was as follows:		
Remuneration (including benefits in-kind)	589	621
	<b>589</b>	<b>621</b>

During the year no (2021: nil) Directors remunerated by Rosyth Royal Dockyard Limited exercised share options under long term incentive plans and two (2021: two) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one Directors (2021: one) under defined benefit pension schemes.

Except for four (2021: four) 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.

**Registered number SC101959**

**Notes to the financial statements (continued)**

**8 Directors' remuneration (continued)**

The above amounts include the following in respect of the highest paid Director:

The emoluments of the directors which was paid by the Company was as follows:	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>£'000</b>
Remuneration (including benefits in-kind)	<b>220</b>	<b>264</b>
	<b>220</b>	<b>264</b>

The highest paid Director did not exercise shares under long term incentive plans (2021: did not exercise shares under long term incentive plans).

The highest paid Director's defined benefit accrued pension and accrued lump sum at 31 March 2022 was £69,975 (2021: £61,437) and £nil (2021: £Nil), respectively.

**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 £0.04 million (2021: £0.04 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £0.04 million (2021: £0.04 million).

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

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**9 Share based payments (continued)**

**Performance Share Plan (PSP) and Deferred Bonus Plan (DBP)**

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,84	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,24	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,47	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,67	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,03	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,32	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,33	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17

Both the vesting period and the expected life of PSP awards are three years, but for the DBP they are two years, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

There are no performance conditions attached to the DBP.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**9 Share based payments (continued)**

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 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 4,784 matching shares were purchased on the open market (2021: 5,000 matching shares) and 2,823 matching shares vested (2021: 1,193 matching shares) leaving a balance of 6,973 matching shares (2021: 5,012 matching shares).

**10 Tax**

Income tax expense

	Year ended 31 March 2022 £'000	Restated Year ended 31 March 2021 £'000
<b>Analysis of tax expense in the year</b>		
Current tax		
• Overseas current year expense	1,098	-
	<b>1,098</b>	<b>-</b>
Deferred tax		
• UK current year expense	14,488	175
• UK prior year expense	81	-
• Impact of changes in tax rates	(69)	-
<b>Total income tax expense</b>	<b>15,598</b>	<b>175</b>

**Tax expense/(benefit) to the statement of comprehensive income**

	31 March 2022 £m	31 March 2021 £m
• Deferred tax charged on revaluation of cash flow hedges	647	(647)
<b>Total tax expense/(benefit) to other comprehensive income</b>	<b>647</b>	<b>(647)</b>

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

The tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**10 Tax (continued)**

	Year ended 31 March 2022 £'000	Restated Year ended 31 March 2021 £'000
<b>Loss before tax</b>	<b>(16,709)</b>	<b>(17,194)</b>
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	<b>(3,175)</b>	<b>(3,267)</b>
Effects of:		
Expenses not deductible for tax purposes	<b>87</b>	<b>137</b>
Group relief surrendered for nil consideration	<b>17,785</b>	<b>-</b>
Overseas tax	<b>889</b>	<b>-</b>
Adjustments in respect of deferred tax for prior years	<b>81</b>	<b>-</b>
Deferred tax not previously recognised/derecognised	<b>-</b>	<b>3,305</b>
Impact of change in UK tax rate	<b>(69)</b>	<b>-</b>
<b>Total income tax expense</b>	<b>15,598</b>	<b>175</b>

In 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2022 that are expected to reverse after 1 April 2023 have been calculated at 25%.

**Deferred tax**

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	31 March 2022 £'000	Restated 31 March 2021 £'000
Deferred tax asset	<b>9,444</b>	<b>29,774</b>
	<b>9,444</b>	<b>29,774</b>

The movements in deferred tax assets and liabilities during the year are shown below.

	Tangible assets £'000	Restated Retirement benefit obligations £'000	Other £'000	Derivative financial instruments £'000	Total £'000
At 1 April 2020 as previously stated	854	15,515	-	-	16,369
Income statement credit/(debit)	(10)	(352)	187	-	(175)
Tax credit/(debit) to other comprehensive income/equity	-	12,933	-	647	13,580
<b>At 1 April 2021 Restated</b>	<b>844</b>	<b>28,096</b>	<b>187</b>	<b>647</b>	<b>29,774</b>
Tax credit/(debit) to other comprehensive income/equity	-	(5,183)	-	(647)	(5,830)
<b>At 31 March 2022</b>	<b>(54)</b>	<b>9,157</b>	<b>341</b>	<b>-</b>	<b>9,444</b>

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**11 Intangible assets**

	<b>Intellectual Property £'000</b>	<b>Goodwill £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
At 1 April 2021	<b>11,605</b>	<b>115,653</b>	<b>127,258</b>
At 31 March 2022	<b>11,605</b>	<b>115,653</b>	<b>127,258</b>
<b>Accumulated amortisation and impairment</b>			
At 1 April 2021	(4,015)	-	(4,015)
Amortisation of Intellectual Property	(765)	-	(765)
At 31 March 2022	<b>(4,780)</b>	-	<b>(4,780)</b>
<b>Net book value</b>			
At 31 March 2022	<b>6,825</b>	<b>115,653</b>	<b>122,478</b>
At 31 March 2021	7,590	115,653	123,243

The goodwill arose on the transfer of the trade and assets of Babcock's activities at Rosyth Dockyard from Babcock Marine (Rosyth) Limited on 1 April 2021.

The company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. There was no impairment requirement in the current or prior year. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)', which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

Intangible assets amortisation is recorded in administrative expenses in the income statement.



**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**12 Property, plant and equipment**

	Freehold property £'000	Investmen t property £'000	Plant and equipme nt £'000	Specialis ed Marine Facilities £'000	Assets under constructi on £'000	Total £'000
<b>Cost</b>						
At 1 April 2021	29,056	1,483	26,222	50,597	32,947	140,305
Additions	-	-	-	-	29,264	29,264
Reclassification	862	-	2,548	-	(3,410)	-
<b>At 31 March 2022</b>	<b>29,918</b>	<b>1,483</b>	<b>28,770</b>	<b>50,597</b>	<b>58,801</b>	<b>169,569</b>
<b>Accumulated depreciation</b>						
At 1 April 2021	(11,855)	(1,483)	(18,077)	(24,801)	-	(56,216)
Charge for the year	(702)	-	(1,276)	(3,100)	-	(5,078)
<b>At 31 March 2022</b>	<b>(12,557)</b>	<b>(1,483)</b>	<b>(19,353)</b>	<b>(27,901)</b>	<b>-</b>	<b>(61,294)</b>
<b>Net book value</b>						
<b>At 31 March 2022</b>	<b>17,361</b>	<b>-</b>	<b>9,417</b>	<b>22,696</b>	<b>58,801</b>	<b>108,275</b>
At 31 March 2021	17,201	-	8,145	25,796	32,947	84,089
<b>Cost</b>						
<b>At 1 April 2020 as previously stated</b>	28,516	2,023	14,103	51,642	-	96,284
Acquisition of business	-	-	9,520	-	-	9,520
Additions	19,561	-	14,940	-	-	34,501
Reclassification	540	(540)	1,045	(1,045)	-	-
Reclassification to AUC	(19,561)	-	(13,386)	-	32,947	-
<b>At 31 March 2021</b>	<b>29,056</b>	<b>1,483</b>	<b>26,222</b>	<b>50,597</b>	<b>32,947</b>	<b>140,305</b>
<b>Accumulated depreciation</b>						
<b>At 1 April 2020 as previously stated</b>	(10,619)	(2,023)	(9,413)	(21,701)	-	(43,756)
Acquisition of business	-	-	(7,562)	-	-	(7,562)
Reclassification	(540)	540	-	-	-	-
Charge for the year	(696)	-	(1,102)	(3,100)	-	(4,898)
<b>At 31 March 2021</b>	<b>(11,855)</b>	<b>(1,483)</b>	<b>(18,077)</b>	<b>(24,801)</b>	<b>-</b>	<b>(56,216)</b>
<b>Net book value</b>						
<b>At 31 March 2021</b>	<b>17,201</b>	<b>-</b>	<b>8,145</b>	<b>25,796</b>	<b>32,947</b>	<b>84,089</b>
At 31 March 2020	17,897	-	4,690	29,941	-	52,528

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**12 Property, plant and equipment (Continued)**

In the year ended 31 March 2022, it was identified that assets under construction were incorrectly classified as freehold property and plant and equipment. The reclassification results in an increase in assets under construction of £33m and decreases in freehold property of £19.6m and in plant and equipment of £13.4m at 31 March 2021.

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 £1,700,000 (2021: £1,700,000), their net book value under the cost model is nil (2021: £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.

**Capital commitments**

Capital expenditure contracts for but not provided for in full in the financial statements is £1,597,000 (2021: £28,030,460).

**13 Leases**

**Right-of-use assets**

The Company leases property under non-cancellable lease arrangements.

	<b>Property £'000</b>	<b>Total £'000</b>
<b>Cost</b>		
At 1 April 2021	82	82
<b>At 31 March 2022</b>	<b>82</b>	<b>82</b>
<b>Accumulated depreciation</b>		
At 1 April 2021	(21)	(21)
Charge for the year	(10)	(10)
<b>At 31 March 2022</b>	<b>(31)</b>	<b>(31)</b>
<b>Net book value</b>		
<b>At 31 March 2022</b>	<b>51</b>	<b>51</b>
At 31 March 2021	61	61

**Lease liabilities**

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	<b>2021 £'000</b>	<b>2020 £'000</b>
At 31 March 2021	61	72
Interest charged	3	3
Payments	(13)	(14)
<b>At 31 March 2022</b>	<b>51</b>	<b>61</b>

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**13 Leases (continued)**

Discounted future minimum lease payments are as follows:

	<b>31 March 2022 £'000</b>	<b>31 March 2021 £'000</b>
Within one year	13	14
In more than one year, but not more than five years	38	47
<b>Carrying value of liability</b>	<b>51</b>	<b>61</b>

The Company had total cash outflows for leases of £124,000 for the year ended 31 March 2022 (2021: £72,000).

The following are the amounts recognised in profit or loss:

	<b>31 March 2022 £'000</b>	<b>31 March 2021 £'000</b>
Expense relating to short-term leases	28	16
Expense relating to leases of low-value assets	96	56
	<b>124</b>	<b>72</b>

**The Company as a lessor**

Rosyth Royal Dockyard Limited is a lessor in arrangements for the lease of properties. These are solely operating lease arrangements.

Amounts recognised in the income statement

	<b>31 March 2022 £'000</b>	<b>31 March 2021 £'000</b>
Operating lease – rental income	715	1,017

Operating lease payments receivable

	<b>31 March 2022 £'000</b>	<b>31 March 2021 £'000</b>
Within one year	374	355
Greater than one year but less than two years	287	126
Greater than two years but less than three years	144	33
Greater than three years but less than four years	34	-
Greater than four years but less than five years	20	-
<b>Total undiscounted operating lease payments receivable</b>	<b>859</b>	<b>514</b>

There was no material impairment of lease receivables in the year ended March 2022 (March 2021: £nil).

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**14 Inventories**

	<b>31 March 2022 £'000</b>	<b>31 March 2021 £'000</b>
Raw materials	<u>389</u>	<u>443</u>
	<b>389</b>	<b>443</b>

Inventories are stated after provisions for impairment of £547,000 (2021: £374,000).

**15 Trade and other receivables**

	<b>31 March 2022 £'000</b>	<b>*Restated 31 March 2021 £'000</b>
<b>Amounts due after more than one year:</b>		
Amounts due from group undertakings	<u>198,814</u>	<u>128,649</u>
	<b>198,814</b>	<b>128,649</b>

Amounts due from group undertakings after more than one year are unsecured and repayable on demand with no interest charge.

Included in amounts due from group undertakings are:

- A parent loan of £19,500,000 (2021: £19,500,000) is repayable on demand, with no interest charge.
- Three group loans totalling £92,342,000 (2021: £22,363,000) are repayable on demand, with no interest charge.

	<b>31 March 2022 £'000</b>	<b>*Restated 31 March 2021 £'000</b>
<b>Amounts falling due within one year:</b>		
Trade receivables	8,696	25,253
Contract assets	3,760	11,784
Amounts due from group undertakings	16,942	9,560
Other receivables	1,577	11,222
Capitalised contract costs	5,660	8,762
Prepayments	<u>4,519</u>	<u>6,313</u>
	<b>41,154</b>	<b>72,894</b>

Amounts due from group undertakings falling within one year are unsecured and repayable on demand.

Trade receivables are stated after provisions for impairment of £917,000 (2021: £343,000).

Current intercompany receivables are expected to be settled in the company's usual operating cycle of 12 months or less.

\*£4,915,000 of Income tax receivable has been reclassified in the prior year to Amounts due from group undertaking within one year. This is to reflect another group company making payments to HMRC on behalf of the Company under the Group Payment Arrangement (GPA).

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**15 Trade and other receivables (continued)**

	Amounts due for contract work £000	Prepayme nts £000	Capitalised contract costs £000	Total £000
<b>At 1 April 2021</b>	<b>11,784</b>	<b>6,313</b>	<b>8,762</b>	<b>26,859</b>
Transfers from contract assets recognised at the beginning of the year to receivables to receivables	(11,784)	(6,313)	(3,102)	(21,199)
Increase due to work done not transferred from contract assets	3,760	4,519	-	8,279
<b>At 31 March 2022</b>	<b>3,760</b>	<b>4,519</b>	<b>5,660</b>	<b>13,939</b>

**16 Trade and other payables**

	31 March 2022 £'000	*Restated 31 March 2021 £'000
<b>Amounts falling due within one year:</b>		
Trade payables	2,173	35,677
Contract liabilities	80,434	59,420
Amounts due to parent and group undertakings	297,219	164,518
Other taxation and social security	3,415	4,520
Contract cost accruals	67,056	14,049
Accruals	15,259	11,076
	<b>465,556</b>	<b>289,260</b>

Amounts due to Group undertakings comprises the following:

- Two major loans (2021: one) to a group company totalling £15,265,000 (2021: £9,943,000) is repayable on demand, with no interest charge.
- All other amounts due from group undertakings are unsecured and repayable on demand.

The Company has access to the Babcock International Group Plc overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 2).

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**16 Trade and other payables (continued)**

	Contract cost accrual £000	Advance payments £000	Total £000
<b>At 1 April 2021</b>	<b>14,049</b>	<b>59,420</b>	<b>73,469</b>
Revenue recognised that was included in contract liabilities at the beginning of the year	(13,202)	(40,902)	(54,104)
Increase due to cash received, excluding amounts recognised as revenue	66,209	61,916	128,125
<b>At 31 March 2022</b>	<b>67,056</b>	<b>80,434</b>	<b>147,490</b>

**17 Prior year restatements**

In the year ended 31 March 2022, the Company restated the prior year financial information. The restatements are summarised below:

**Impact on the income statement for the year ended 31 March 2021**

	Year ended 31 March 2021 (previously published)	(i) Pensions	(ii) Reclassification of Novated contracts	iii) Amounts Due from Parent and Group Undertakings Restatement	Year ended 31 March 2021 (restated)
	£000	£000	£000	£000	£000
<b>Income statement</b>					
Revenue	262,070	-	(17,395)	59	244,734
Cost of revenue	(269,020)	-	16,262	-	(252,758)
Administration and distribution expenses	(6,786)	-	-	-	(6,786)
Other finance costs - pensions	(2,022)	(476)	-	-	(2,498)
Finance income	177	-	-	-	177
Finance costs	(63)	-	-	-	(63)
<b>Loss before tax</b>	<b>(15,644)</b>	<b>(476)</b>	<b>(1,133)</b>	<b>59</b>	<b>(17,194)</b>
Income tax expense	(3,013)	2,838	-	-	(175)
<b>Loss for the period</b>	<b>(18,657)</b>	<b>2,362</b>	<b>(1,133)</b>	<b>59</b>	<b>(17,369)</b>

**Year ended 31 March 2021 – Statement of other comprehensive income (extract)**

The table below shows the impact of the prior year restatements on the statement of other comprehensive income.

	Year ended 31 March 2021 (previously published)	(i) Pensions	(ii) Reclassification of Novated contracts	(iii) Due from Parent and Group Undertakings Restatement	(iv) Tax impact on movement in derivatives	Year ended 31 March 2021 (restated)
	£000	£000	£000	£000	£000	£000
<b>Other comprehensive loss</b>	<b>(18,657)</b>	<b>2,362</b>	<b>(1,133)</b>	<b>59</b>	<b>647</b>	<b>(17,369)</b>
(Loss)/Gain on re-measurement of net defined benefit obligation	(88,979)	20,912	-	-	-	(68,067)
Deferred tax asset related to defined benefit pension schemes	16,906	(3,974)	-	-	-	12,932
Fair value adjustment of foreign exchange hedges	(3,403)	-	-	-	647	(2,756)

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**17 Prior year restatements (continued)**

**31 March 2021 – Statement of financial position (extract)**

	31 March 2021 (previously published) £000	(i) Pensions £000	(ii) Reclas- sification of Novated contracts £000	(iii) Amounts Due from Parent and Group Undertakings Restatement £000	(iv) Classification of split between BMRL and RRDL £000	(v) Group intercomp any payable £000	(vi) Tax impact on movement in derivatives £000	31 March 2021 (restated) £000
<b>Assets</b>								
Deferred Tax	30,262	(1,135)	-	-	-	-	647	29,774
Other receivables due after one year	-	-	1,208	127,441	-	-	-	128,649
<b>Total non- current assets*</b>	<b>237,655</b>	<b>(1,135)</b>	<b>1,208</b>	<b>127,441</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>365,816</b>
Trade and other receivables	92,023	-	(2,792)	(127,441)	111,104	-	-	72,894
Cash and cash equivalents	12,379	-	-	-	(11,358)	-	-	1,021
<b>Total current assets*</b>	<b>104,845</b>	<b>-</b>	<b>(2,792)</b>	<b>(127,441)</b>	<b>99,746</b>	<b>-</b>	<b>-</b>	<b>74,358</b>
Trade and other payables	(139,762)	-	451	-	(167,774)	17,825	-	(289,260)
Bank overdraft	(40,019)	-	-	-	40,019	-	-	-
<b>Total current Liabilities</b>	<b>(186,992)</b>	<b>-</b>	<b>451</b>	<b>-</b>	<b>(127,755)</b>	<b>17,825</b>	<b>-</b>	<b>(296,471)</b>
<b>Non-current liabilities</b>								
Retirement benefit deficits	(153,845)	5,974	-	-	-	-	-	(147,871)
<b>Total non- current liabilities*</b>	<b>(154,024)</b>	<b>5,974</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(148,050)</b>
<b>Equity</b>								
Capital redemption and other reserves	147,169	-	-	-	-	-	647	147,816
Retained earnings	(145,685)	4,839	(1,133)	-	(28,009)	17,825	-	(152,163)
<b>Total equity*</b>	<b>1,484</b>	<b>4,839</b>	<b>(1,133)</b>	<b>-</b>	<b>(28,009)</b>	<b>17,825</b>	<b>-</b>	<b>(4,347)</b>

\* The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets, non-current liabilities, and equity do not therefore represent the sum of the line items presented above.

**Notes to the financial statements (continued)**

**17 Prior year restatements (continued)**

**(i) Pensions**

**Longevity swap valuation**

The longevity swap relating to the scheme was previously valued in line with the collateral posted by the scheme with its intermediary. This was deemed a proxy for fair value in line with IAS 19. Having considered valuations of a notional replacement swap, or exit, we now believe the previous approach no longer accurately reflects fair value and so we have changed our valuation approach accordingly. In the year ended 31 March 2021, there was an increase in retirement benefit surplus on the Statement of financial position of £7.4m, and a loss through the statement of other comprehensive income due to the restatement of retirement benefit obligations of £7.3m. This change does not affect the technical provision assessed for the scheme during triennial valuations, their funder requirements, or the deficit recovery cash contributions agreed with the scheme.

**Change due to inflation**

Furthermore, a refinement in the calculation of the value of defined benefit obligation for the scheme now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases. This approach was not followed in the year ended 31 March 2021. Correction of this error results in a decrease to the defined benefit surplus of £1.4m and a gain through the statement of other comprehensive income of £28.2m.

**(ii) Reclassification of Novated contracts**

During the year ended 31 March 2022, an error was identified whereby the novation of contracts from Babcock Marine (Rosyth) Limited (BMRL) to Rosyth Royal Dockyard Limited (RRDL) did not occur within the time period. This has impacted the Income Statement by decreasing revenue by £17.4m and increasing the loss by £1.1m. Impact on the Statement of financial position is a reduction in current assets of £2.8m and current liabilities of £1.6m.

**(iii) Amounts Due from Parent and Group Undertakings Restatement**

In the prior year, intercompany amounts due from Group were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and, considering the fact that these assets are not expected to be settled within the next twelve months, the classification has been reassessed, and the amounts due from Group presented within non-current assets. The balance sheet and applicable note in the comparative period have been restated accordingly.

**(iv) Classification of split between BMRL and RRDL**

Amounts due from group undertakings and Amounts due to group undertakings were incorrectly split between Babcock Marine (Rosyth) Limited (BMRL) and Rosyth Royal Dockyard Limited (RRDL). This has impacted the Statement of financial position by increasing current assets by £99.7m and current liabilities by £128m.

**(v) Group intercompany payable**

In the prior year, amounts due to group undertakings included a payable to another group undertaking which should have been written off. This has impacted the Statement of financial position by decreasing current liabilities and equity by £17.8m.

**(vi) Tax impact on movement in derivatives**

The tax impact on the movement in derivatives was previously omitted from the Statement of comprehensive income (OCI). The OCI, balance sheet and applicable notes have been restated accordingly. This has impacted the OCI by £0.6m and Statement of financial position by increasing non-current assets by £0.6m and equity.



**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**18 Provisions for liabilities**

The company had the following provisions during the year:

	Contract/ warranty £'000	Other	Total £'000
<b>At 1 April 2021</b>	132	-	132
Charged to the income statement	-	753	753
Unused amounts reversed to the income statement	(132)	-	(132)
<b>At 31 March 2022</b>	-	753	753

Provisions have been analysed as current and non-current as follows:

	31 March 2022 £'000	31 March 2021 £'000
Current	753	132
	<b>753</b>	<b>132</b>

Other provision relates to a review of the major programmes in Rosyth Royal Dockyard Limited and relate to expected redundancy costs. These are based on the assessment of future costs and are assessed with reference to past experience. The majority of provisions were fully utilised during the year ending 31<sup>st</sup> March 2023.

**19 Other financial assets and liabilities**

Included in derivative financial instruments at fair value:

	31 March 2022		31 March 2021	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
<b>Current:</b>				
Forward FX contracts – cash flow hedges	-	7,787	-	7,197
	-	<b>7,787</b>	-	<b>7,197</b>

The Company has taken advantage of the exemptions within FRS 101 not to disclose all IFRS 7 and IFRS 13 requirements, 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 with compliance to IFRS.

**20 Share capital**

	31 March 2022 £'000	31 March 2021 £'000
<b>Allotted, called up and fully paid</b>		
200,072 ordinary shares of £1 each (2021: 200,072)	200	200
49,998 "A" ordinary shares of £1 each (2021: 49,998)	50	50
	<b>250</b>	<b>250</b>

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.

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**20 Share capital** *(continued)*

On 1<sup>st</sup> April 2020, the Company purchased the trade and assets of Babcock Marine (Rosyth) Limited, its immediate parent, for consideration of £118,021,000 being the net book value of the assets, satisfied by the issue of 50 £1 ordinary shares at a premium of £118,020,950 or £2,360,419 per share.

**21 Dividends**

Dividends declared and paid were nil (2021: nil). There are no plans for a final dividend.

**22 Guarantees and financial commitments**

a) Capital Commitments

At 31 March 2022 the Company had capital commitments of £1,597,000 (2021: £28,030,460) for the purchase of various plant and equipment.

b) Lease Commitments

At 31 March 2022 the Company had lease commitments of nil for leases not yet commenced (2021: nil).

**23 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.

In the year ended 31 March 2022, the Company had no transactions or balances outstanding with related parties that fall outside the FRS 101 exemption criteria.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**24 Pension commitments**

Pension costs for defined contribution schemes are as follows:

	<b>31 March 2022</b>	<b>31 March 2021</b>
	<b>£'000</b>	<b>£'000</b>
Defined contribution schemes	9,585	5,023

Statement of financial position liabilities recognised are as follows

	<b>31 March 2022</b>	<b>31 March Restated 2021</b>
	<b>£'000</b>	<b>£'000</b>
Retirement benefits – funds in deficit	(36,624)	(147,871)
	<u>(36,624)</u>	<u>(147,871)</u>

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 also participates in the following defined benefit schemes: Rosyth Royal Dockyard Pension Scheme<sup>o</sup> (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 defined benefit scheme is that the employees contribute to the schemes with the employer 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 Group with the trustees of each scheme who are advised by independent, qualified actuaries.

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 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 defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme's members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes' investment strategy (subject to consultation with the Group). All the schemes have at least one 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.

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**24 Pension commitments (continued)**

In the last financial year, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active deferred members of the scheme, retaining a final salary link.

**Rosyth Royal Dockyard Pension scheme**

The IAS 19 valuation has been updated at 31 March 2022 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 2020. The major assumptions used for the IAS 19 valuation were:

	2022	2021
	%	Restated %
<b>Major assumptions</b>		
Rate of increase in pensionable salaries	3.4	2.9
Rate of increase in pensions	3.71	3.23
Discount rate	2.7	2.0
Total life expectancy for current pensioners aged 65 (years)	20.0	19.8
Total life expectancy for future pensioners currently aged 45 (years)	20.9	20.9

The Company's cash contribution rates payable to the schemes are expected to be as follows:

	Rosyth Royal Dockyard Pension scheme
Deficit contributions	66.6
Additional longevity swap payments	4.7
<b>Expected total employer contributions</b>	<b>71.3</b>

The expected total employer contributions to be made by participating employers to the scheme in 2022/23 are £66.6m (2021/22 £67.5m). The future service rate is nil (2021/22 nil). The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The changes to the Babcock International Group Plc balance sheet at March 2022 and the changes to the Babcock International Group Plc income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**24 Pension commitments (continued)**

	Defined benefit obligations 2022 £'000	Income statement 2022 £'000
Initial assumptions	898,505	1,876
Discount rate assumptions increased by 0.5%	825,816	(378)
Discount rate assumptions decreased by 0.5%	981,437	3,628
Inflation rate assumptions increased by 0.5%	962,838	3,613
Inflation rate assumptions decreased by 0.5%	838,665	260
Total life expectancy increased by half a year	919,800	2,451
Total life expectancy decreased by half a year	878,738	1,342
Salary increase assumptions increased by 0.5%	898,505	1,876
Salary increase assumptions decreased by 0.5%	898,505	1,876

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 2022 were:

Fair value of plan of assets	2022 £'000	2021 Restated £'000
Growth assets		
Equities	10,186	22,105
Property funds	63,022	80,568
High yield bonds/emerging market debt	24,300	68,885
Absolute return and multi-strategy funds	44,489	117,385
Low-risk assets		
Bonds	398,240	238,122
Matching assets*	324,402	284,740
Collateral	75,327	66,162
Longevity swaps	(91,700)	(76,280)
<b>Fair value of assets</b>	<b>848,266</b>	<b>801,687</b>
Present value of defined benefit obligations	(898,505)	(1,004,528)
<b>Total defined benefit obligations</b>	<b>(898,505)</b>	<b>(1,004,528)</b>
<b>Net liabilities recognised in the statement of financial position</b>	<b>(50,239)</b>	<b>(202,841)</b>

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

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**24 Pension commitments (continued)**

The amounts recognised in the Group income statement are as follows:

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>Restated £'000</b>
Current service cost	-	1,946
Incurred expenses	<b>1,544</b>	1,486
Past service cost	-	206
Curtailment	-	7,500
<b>Total included within operating profit</b>	<b>1,544</b>	<b>11,138</b>
Net interest cost	<b>2,659</b>	<b>3,427</b>
<b>Total included within income statement</b>	<b>4,203</b>	<b>14,565</b>

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 Nil for service cost (2021: £1,419,000), £1,126,000 for incurred expenses (2021: £1,083,000), Nil for past service cost (2021: £150,000), Nil for curtailment (2021: £5,467,000), and net interest cost of £1,938,000 (2021: £2,498,000).

Amounts recorded in the Group statement of comprehensive income

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>Restated £'000</b>
Actual return less interest on pension scheme assets	<b>71,986</b>	(137,133)
Experience gains/(losses) arising on scheme liabilities	<b>23,247</b>	50,500
Changes in assumptions on scheme liabilities	<b>(13,894)</b>	3,244
	<b>81,339</b>	<b>(83,389)</b>

The actuarial gain/(loss) recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £38,845,000 (2021: (£68,067,000)).

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**24 Pension commitments (continued)**

**Analysis of movement in the Group statement of financial position:**

	<b>2022</b>	<b>2021</b>
	<b>£'000</b>	<b>Restated £'000</b>
<b>Fair value of plan assets</b>		
At 1 April	877,967	850,784
Interest on assets	18,279	17,367
Actuarial gain on assets*	34,214	52,694
Employer contributions	75,466	26,962
Employee contributions	-	4
Benefits paid	(65,960)	(69,844)
<b>At 31 March</b>	<b>939,966</b>	<b>877,967</b>
<b>Present value of benefit obligations</b>		
At 1 April	1,004,528	904,973
Service cost	-	1,946
Incurred expenses	1,544	1,486
Interest cost	19,412	18,930
Employee contributions	-	4
Experience loss	10,967	2,194
Actuarial gain – demographics	(22,630)	(1,366)
Actuarial (gain)/loss – financial	(49,356)	138,499
Benefits paid	(65,960)	(69,844)
Past service costs	-	206
Curtailment	-	7,500
<b>At 31 March</b>	<b>898,505</b>	<b>1,004,528</b>
<b>Net surplus/(deficit) at 31 March</b>	<b>41,461</b>	<b>(126,562)</b>

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 £36,624,000 (2021: £147,871,000).

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 17.

**25 Subsidiary, and associate and Joint Venture undertakings**

All related undertakings for the Company are as listed below, these are held at a net book value of £100, and hence do not show on the statement of financial position:

<b>Company Name</b>	<b>Country</b>	<b>Address</b>	<b>Interest</b>	<b>Direct %</b>
Rosyth Royal Dockyard Pension Trustees Limited <sup>1</sup>	United Kingdom	See below	100 Ordinary shares	100.0%

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

**Registered number SC101959**

**Classification: UNCLASSIFIED**  
**Rosyth Royal Dockyard Limited**

**Notes to the financial statements (continued)**

**26 Contingent liabilities**

The Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with utilisation of £383.6m at 31 March 2022 (31 March 2021: £371.3m).

**27 Post balance sheet events**

In November 2019, Babcock was awarded the Type 31 contract by the UK Ministry of Defence to deliver five Inspiration Class frigates for the Royal Navy, based on Babcock's Arrowhead 140 hull design, at an average production cost of £250 million per ship. To date, we have recognised over £600 million of revenue but no profit on the programme. Expected to conclude in 2028, the programme remains on schedule against a demanding production plan, despite the restrictions imposed by COVID-19. HMS Venturer, the First in Class ship is due to be structurally complete in December 2023 and construction commenced on the second ship, HMS Active, in January 2023.

Throughout FY23, we have been in dialogue with the customer about the contractual position regarding additional forecast costs resulting from certain material macroeconomic changes that were not foreseen at contract inception. These have led to an increase in the actual and projected programme costs to deliver the programme as planned. We have been unable to reach agreement with our customer as to who is responsible for the additional costs under the contract. As a result, a dispute resolution process (DRP) under the contract has commenced.

Following the commencement of a dispute resolution process (DRP) in April 2023 over responsibility for these incremental costs, we have reassessed the contract outcome on the basis that these are not recovered. This has resulted in the recording of a £100.1 million loss in the year, representing a £42.6 million reversal of revenue, £1.6 million asset impairment and the recognition of a £55.9 million onerous contract loss. The DRP is ongoing.

The related cash impact would be of a similar amount, realised over the remainder of the programme. Any settlement or arbitral award would reverse the provision in part or in full. The position in relation to the Type 31 contract does not affect progress or profitability of the Group's existing Arrowhead 140 export contracts and we continue to be in active discussions with a number of prospective customers.

**28 Immediate and ultimate parent undertakings**

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 Wignmore Street  
London W1U 1QX

**Registered number SC101959**