Devonport Royal Dockyard Limited

Annual report

For the year ended 31 March 2018

Company registration number:

02077752

Devonport Royal Dockyard Limited

Directors and advisors

Current Directors
S A French
D E Gilbert CBE
G Lambert
G M Leckie
C Lockhart
A D H Mathews

Company Secretary
J M Wood

Registered Office
Devonport Royal Dockyard
Devonport
Plymouth
PL1 4SG

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
2 Glass Wharf
Bristol
BS2 0FR

Strategic report for the year ended 31 March 2018

The directors present their strategic report on the Company for the year ended 31 March 2018.

Principal activities

The Company's principal activity is the maintenance and refit of Royal Navy warships and submarines, the provision of support services to the Ministry of Defence ("MOD") in relation to the operation of the Devonport Naval Base, and the provision of a range of other technical and engineering support services to both the MOD and commercial customers. The classes of business in which the Company operates are considered similar and are of an inter-related nature.

Review of the business

	2018	2017
	£000	£000
Revenue	**734,205**	688,504
Profit for the financial year	**89,089**	69,908

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

The Company is part of the Marine Sector of Babcock International Group PLC ("Babcock") and has continued 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 committed levels of cost benefits to the MOD on allocated contracts have been delivered and overall cost and service level performance has met or exceeded requirements.

The provision of fleet time maintenance to the nuclear-powered submarine flotilla based at Devonport continued, in parallel with the on-going programme of submarine refit and refuelling work. The Deep Maintenance Period (Refuel) and life extension on the submarine continued during the year. This is the second refuelling of the first of class Trident submarine at Devonport.

The Maritime Delivery Support Framework ("MSDF") which absorbed the scope of the previous Warship Support Modernisation Initiative contract, and also includes all allocated Warship Upkeep work along with elements of Engineering Services design activities, continued into its fourth year of operation after a successful first three years achieving all of its contracted outputs and cost saving commitments. The contract runs from 1st October 2014 to 31st March 2020.

Review of the business *(continued)*

The Company also continued to provide fleet time support to the surface ship flotilla based at Devonport and to support a continuous programme of warship upkeep and upgrade projects, which are encompassed under the MSDF contract. Six upkeeps at various stages were undertaken in year within the Surface Ships Support Alliance ("SSSA"). This included the amphibious platform HMS Albion which completed its two and a half year programme of upkeep and regeneration. Five Type 23 frigates were also undertaken in year, two of which completed in year, two to complete in 2018/19 and one to complete in 2019/20. All have accommodated significant scope growth due to ageing and upgrade requirements. A number of other Fleet Time Support Periods on surface ships were also carried out. The SSSA between the MOD, BAE and Babcock continued successfully into 2017/18 with joint targets for availability and cost reduction substantially achieved resulting in another performance fee payment. The Company is also providing engineering support in the future warship programmes for Queen Elizabeth Class ("QEC") Aircraft Carriers and the Type 23 replacement frigate.

Throughout the year the Company progressed a number of equipment-related 'through life' engineering support contracts with the MOD, using its established facilities and the engineering skill base of its employees. The Company also continued to manage the provision of submarine configuration management, in-service performance and other support services to the MOD across the entire UK nuclear-powered submarine flotilla. As part of the multi-year plan to reduce its overhead cost base, integration of support service functions with other parts of Babcock's business at both sector and group level is continuing.

Striving for and maintaining an excellent Health and Safety record remains fundamental and an integral objective across the Devonport site, and has been progressed during the year with Home Safe Every Day at its core. When compared to 2016/17, our performance against the same time frame this year has improved by 20% and from an over 3 day accident perspective shows an improvement of 23%. Whilst the focus remains to prevent an event occurring, emphasis continues to be placed on ensuring suitably trained investigators are available to establish root causes, thus highlighting trends which will lead to arrangements being put in place to prevent a recurrence. From a regulatory compliance perspective, DRDL currently has no Improvement Notices from the Office for Nuclear Regulation (ONR). Forward Actions Plans have been agreed with the ONR who will monitor and track progress. The Conventional Safety campaign has continued to build on recent successes in reducing injuries at Devonport. A rigorous evidence and risk based approach is being taken to concentrate effort on real risks and simplify our processes to ensure compliance with legislation as well as being easier to follow and thus becoming safer and more effective and efficient. The recent opening of a new physiotherapy suite and proposed investment in our Occupational Health facilities reflects continued commitment to the health and wellbeing of our workforce. There will be additional Community First Responders to provide an improved emergency response as the initiative is rolled out across the organisation. Mental Health First Aiders have also been trained to provide a wider range of support to what is becoming a nationwide issue.

Principal risks and uncertainties

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

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

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

During the fifth full year of operation of the MSDF contract, the Company will continue to focus on developing and implementing efficiency improvements across the site to deliver the committed savings, underpinned by the recent announcement of a headcount reduction programme.

Phase 3 of the SSSA was successfully implemented in-year building upon the principles agreed and successfully implemented to date including the implementation of the Common Support Model (CSM) incorporating QEC and Type 45 Destroyers. The SSSA Upkeep programme continues with the commencement of a further two Type 23 Frigate upkeeps in 2018/19. In terms of competitive opportunities, we await a decision on our bid submission for in-service support for Commercially Supported Ships (CSS) which is expected in summer 2018, and we have been successful in being down-selected for the Competitive Design Phase for the design and build of five General Purpose Light Frigates (Type 31e). The design and build bid submission is due in December 2018 with contract award to the successful bidder expected in April 2019.

Activity will continue during 2018/19 on the Trident submarine Deep Maintenance Period (Refuel) as the programme progresses through key stages of the contract.

The Company continues its active engagement in a number of pan-industry alliances with the MOD that will determine long term arrangements for delivering and supporting current and future classes of surface warships and submarines, including design and assessment work on the planned successor deterrent submarine, new classes of surface warship and modernisation of infrastructure to support future submarine and warship programmes.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MOD.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Key performance indicators

The growth and performance of Marine, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 30 to 37 of the Group's report, which does not form part of this report.

The marine activities of the group are managed on a sector basis. We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2018	2017	
Revenue Growth	**6.6%**	4.3%	Increase in revenue when compared to that of the previous year. Revenue continues to grow for 2017/18 predominately due to the ongoing programme of Submarine refit and refuelling work and life extension work undertaken on Warship Support upkeep programmes.
Operating Return on Revenue (ORR)	**13.1%**	12.1%	Operating profit expressed as a percentage of revenue.
Order Book	**£2,443m**	£3,004m	Includes total value of signed contracts and prudent estimate of value of framework contracts. The reduction in order book is predominantly due to the revenue taken in year on the MSDF contract.
Total injuries rate per 100,000 hours worked	**1.83**	2.45	Health and Safety is a core value for the Company. The data includes all reported injuries.
Number of apprentices	**429**	338	The requirement for apprentices reflects forecast growth in core workload recognising the current demographics of the workforce.

On behalf of the board

G Lambert
Director
27 June 2018

Directors' report for the year ended 31 March 2018

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2018.

Dividends

An interim dividend of £25,000,000 (2017: £20,000,000) representing 467.29 pence (2017: 373.83 pence) per ordinary share was declared and paid in the year. No final dividend for the year ended 31 March 2018 is proposed by the directors (2017: £nil).

Future developments

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

Financial risk management

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

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

Management of capital
The Company defines capital as shareholder equity plus net surplus/debt but in addition considers the availability of financial capital elsewhere in the group. The Company's policy is to ensure an appropriate level of capital and available financial capital to maintain operational flexibility and meet financial obligations whilst funding the Group's organic and acquisitive growth.

All treasury transactions are carried out only with prime rated counter-parties. Financial risk is managed in accordance with Group policies and procedures which are discussed on pages 26 to 29 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. As the Company's principal customer is the MOD it is considered that the Company's credit risk exposure is low.

Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

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

Directors' report for the year ended 31 March 2018 *(continued)*

Financial risk management *(continued)*

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

Directors

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

S Foster	Resigned 5 July 2017
S A French	
D E Gilbert CBE	
G Lambert	
G M Leckie	
C Lockhart	
A D H Mathews	
C A Tomkins	Resigned 28 February 2018

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. Employee engagement forums are in place in order to provide feedback in relation to employee surveys, and provide updates on employee initiatives.

Employees of the Company may also participate in the Babcock Approved Employee Share Ownership Plan, which is discussed on page 133 of the annual report of Babcock International Group PLC, which does not form part of this 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.

Directors' report for the year ended 31 March 2018 *(continued)*

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.

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 applicable.

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.

Statement of directors' responsibilities in respect of the financial statements

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

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

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

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

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

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

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

Directors' report for the year ended 31 March 2018 *(continued)*

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.

Disclosure of information to auditors

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

On behalf of the board

G Lambert

G Lambert
Director
27 June 2018

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 March 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 March 2018, the income statement, the statement of comprehensive income, the statement of changes in equity for the year then ended, and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

Report on the audit of the financial statements *(continued)*

Reporting on other information *(continued)*

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

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

Report on the audit of the financial statements *(continued)*

Responsibilities for the financial statements and the audit *(continued)*

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Heather Ancient

Heather Ancient (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
28 June 2018

Devonport Royal Dockyard Limited

Income statement
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue	4	**734,205**	688,504
Cost of sales		**(638,179)**	(605,276)
Operating profit on ordinary activities before interest and taxation	7	**96,026**	83,228
Finance income	6	**8,054**	5,268
Finance costs	6	**(187)**	(62)
Income from shares in group undertakings		**5,000**	-
Profit on ordinary activities before taxation		**108,893**	88,434
Income tax expense	11	**(19,804)**	(18,530)
Profit for the year		**89,089**	69,904

Statement of comprehensive Income
for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Profit for the year		**89,089**	69,904
Other comprehensive income:			
Items that may be subsequently reclassified to income statement:			
Fair value adjustment of interest rate and foreign exchange hedges	19	**1,103**	(1,127)
Tax on fair value adjustment of interest rate and foreign exchange hedges	20	**(190)**	186
Items that will not be subsequently reclassified to income statement:			
Gain/(loss) on measurement of net defined benefit obligation	25	**16,215**	83,716
Tax on net defined benefit obligation	20	**(3,081)**	(16,743)
Impact of change in rate of taxation	20	**743**	3,470
Total comprehensive income for the year		**103,879**	139,406

Devonport Royal Dockyard Limited

Balance sheet
as at 31 March 2018

	Note	2018 £000	2017 £000
Fixed assets			
Intangible assets	12	**5,965**	12,129
Tangible fixed assets	13	**145,885**	133,719
Investments	14	**1,015**	-
Gross pension assets	25	**175,676**	138,505
		328,541	284,353
Current assets			
Inventories	15	**4,557**	5,080
Trade and other receivables	16	**570,041**	555,788
Corporation tax recoverable		**8,288**	6,121
Other financial assets	19	**13**	7
Cash and cash equivalents		**17,566**	-
		600,465	566,996
Trade and other payables – amounts falling due within one year	17	**(304,507)**	(316,089)
Other financial liabilities	19	**(145)**	(1,121)
Corporation tax payable		**(87,168)**	(71,408)
Cash and cash equivalents		**-**	(9,215)
Net current assets		**208,645**	169,163
Total assets less current liabilities		**537,186**	453,516
Non-current liabilities			
Trade and other payables – amounts falling due after more than one year	17	**(912)**	(1,033)
Deferred tax liability	20	**(33,204)**	(26,881)
Provisions for other liabilities and charges	18	**(40)**	(1,451)
Net assets		**503,030**	424,151
Equity			
Called up share capital	21	**5,350**	5,350
Share premium		**32,700**	32,700
Hedging reserve	19	**(17)**	(1,120)
Retained earnings		**464,997**	387,221
Total shareholders' funds		**503,030**	424,151

The notes on pages 16 to 40 are an integral part of these financial statements. The financial statements on pages 13 to 40 were approved by the board of directors on 27 June 2018 and signed on its behalf by:

G Lambert

G Lambert
Director
27 June 2018

Devonport Royal Dockyard Limited

Statement of changes in equity
for the year ended 31 March 2018

	Note	Called up share capital £000	Share premium £000	Hedging reserve £000	Retained earnings £000	Total Shareholders' funds £000
Balance at 1 April 2016		**5,350**	**32,700**	**7**	**266,688**	**304,745**
Profit for the year		-	-	-	**69,904**	**69,904**
Other comprehensive income / (loss)		-	-	**(1,127)**	**70,629**	**69,502**
Dividends paid	22	-	-	-	**(20,000)**	**(20,000)**
Balance at 31 March 2017		**5,350**	**32,700**	**(1,120)**	**387,221**	**424,151**
Profit for the year		-	-	-	**89,089**	**89,089**
Other comprehensive income / (loss)		-	-	**1,103**	**13,687**	**14,790**
Dividends paid	22	-	-	-	**(25,000)**	**(25,000)**
Balance at 31 March 2018		**5,350**	**32,700**	**(17)**	**464,997**	**503,030**

Notes to the financial statements

1 General information

Devonport Royal Dockyard Limited is a private company limited by shares, which is incorporated and domiciled in the UK. The address of the registered Office is Devonport Royal Dockyard, Devonport, Plymouth, PL1 4SG.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has prepared these financial statements in accordance with FRS 101. No new accounting standards have been adopted during the financial year.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of 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 thousand (£'000).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)

e) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 16, 38A-D, 111, and 134-136

f) IAS 7, 'Statement of cash flows'
g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

2 Summary of significant accounting policies *(continued)*

Basis of preparation (continued)

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

Revenue

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

(a) Sale of goods

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

(b) Long-term service contracts

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

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

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

Contract accounting balances

The Company presents as an asset the amounts recoverable on contracts due from customers for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings.

The Company presents as a liability, payments received on account due to customers for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2 Summary of significant accounting policies *(continued)*

Contract accounting balances *(continued)*

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

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life 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) Software

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.

Tangible fixed assets

Tangible fixed assets are 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 tangible fixed assets over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Freehold property	4% to 20%
Plant and equipment	10% to 33.3%

Tangible fixed assets are 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

Investments are stated at cost. The carrying value is reviewed annually.

Inventory

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

Trade and other receivables

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Trade and other payables

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share based payments

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

Taxation

(a) Current income tax

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

(b) Deferred income tax

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

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

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

Pension costs and other post-retirement benefits

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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

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

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

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

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

Foreign currencies

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

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

Operating leases

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

Provisions for liabilities

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

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities *(continued)*

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

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

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently re-measured at their fair value. The Company designates certain 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, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. The gains or losses deferred in equity are shown in the hedging reserve on the face of the balance sheet. These gains or losses are then realised through the income statement as the asset is sold.

Certain derivatives do not qualify or are not designated as hedging instruments and any movement in their fair values is recognised in the income statement immediately.

3 Critical accounting estimates and judgements

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

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

The key business 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. Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 68 to 79 of the annual report of Babcock International Group PLC, which does not form part of this report.

3 Critical accounting estimates and judgements *(continued)*

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 25 for the disclosures of the defined benefit pension scheme.

Contract accounting

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

4 Revenue

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

	2018	2017
	£000	£000
By area of activity:		
Sales of goods	**44,957**	15,210
Long term service contracts	**689,248**	673,294
	734,205	688,504

All revenue relates to sales in the United Kingdom.

5 Contract revenue

	2018	2017
From ongoing contracts:	**£000**	£000
Contract costs incurred	**4,038,492**	4,119,754
Recognised profits less recognised losses	**529,087**	519,108
	4,567,579	4,638,862
Progress billings	**4,524,527**	4,670,743
Amounts recoverable on contracts (note 16)	**79,587**	20,960
Payments received on account (note 17)	**(36,535)**	(52,841)

Notes to the financial statements *(continued)*

6 Finance income and costs

	2018 £000	2017 £000
Finance income:		
Bank interest	-	11
Loan interest receivable from group undertakings	2,744	2,749
Net pension interest income (note 25)	3,767	1,495
Capitalised interest	1,543	1,013
	8,054	5,268

	2018 £000	2017 £000
Finance expenses:		
Bank interest	(187)	(62)
Net pension interest expense (note 25)	-	-
	(187)	(62)

7 Operating profit

Operating profit is stated after charging:	2018 £000	2017 £000
Depreciation of property, plant and equipment	14,640	19,522
Amortisation of intangible assets	9,584	3,658
Operating lease charges		
- Plant and machinery	1,139	1,280
- Land and buildings	966	905
Foreign exchange (gains)/losses	(50)	57
Audit fees payable to the Company's auditors	146	152
Intellectual property royalty charge	10,802	10,096

Cost of sales for the year ended 31 March 2018 also includes research and development tax credits of £2,167,000 (2017: £3,080,000).

8 Staff costs

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

	2018 Number	2017 Number
By activity:		
Operations	**5,507**	5,115
Management and administration	**8**	12
	5,515	5,127

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	**205,536**	193,335
Social security costs	**21,661**	19,755
Other pension costs (note 25)	**34,436**	22,953
	261,633	236,063

Included in wages and salaries is a total expense of share-based payments of £2,000,000 (2017: £2,200,000) of which £2,000,000 (2017: £2,200,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £21,251,000 (2017: £17,720,000) in respect of one (2017: two) defined benefit scheme and £5,729,078 (2017: £4,966,000) in respect of the defined contribution scheme.

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

9 Directors' remuneration

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

	2018 £000	2017 £000
Emoluments (including benefits in-kind)	**889**	2,573
Defined contribution pension scheme	**-**	12
	889	2,585

Notes to the financial statements *(continued)*

9 Directors' remuneration *(continued)*

During the year three (2017: seven) directors remunerated by Devonport Royal Dockyard Limited exercised share options under long term incentive plans and three (2017: seven) directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to three directors (2017: seven) under the group pension scheme and the executive pension scheme, both of which are defined benefit schemes. The defined benefit schemes were amalgamated together on 1 January 2002, as reported in the pension financial statements for the year ended 31 March 2002.

No retirement benefits are accruing under the group defined contribution scheme (2017: retirement benefits were accruing for one director under the group defined contribution scheme). The total value of Company contributions paid to the scheme during the year in respect of directors' qualifying services was £nil (2017: £11,548).

The above disclosure relates to six (2017: twelve) directors. The remaining two (2017: three) directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	2018	2017
	£000	£000
Emoluments (including benefits in-kind but excluding pension contributions)	**361**	385
Defined benefit pension scheme:		
- Accrued pension at the end of the year	-	-
- Accrued lump sum at the end of the year	-	-

The highest paid director did not exercise shares under long term incentive plans (2017: the highest paid director did not exercise shares under long term incentive plans).

10 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 Devonport 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 £2.0 million (2017: £2.2 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £1.6 million (2017: £1.8 million).

Notes to the financial statements *(continued)*

10 Share based payments *(continued)*

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

DBMP, PSPs and DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2017 PSP	902,424	905.5	15.0%	6.0	30%	131.2	905.5	46%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	30%	131.2	905.5	46%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100%	–	905.5	46%	14/06/17
2017 DBP	103,246	905.5	15.0%	3.0	100%	–	905.5	46%	14/06/17
2016 DBMP Matching	479,065	974.5	14.0%	4.0	17%	379.1	974.5	46%	15/06/16
2016 PSP	2,085,427	974.5	14.0%	4.0	17%	389.9	974.5	46%	15/06/16
2016 DBP	14,714	974.5	14.0%	3.0	100%	–	974.5	46%	15/06/16
2016 DBP	62,845	974.5	14.0%	4.0	100%	–	974.5	46%	15/06/16
2016 PSP	27,578	991.0	14.0%	3.75	17%	396.4	991.0	46%	12/10/16
2015 DBMP Matching	936,197	1,121.0	12.0%	4.0	17%	364.0	1,121.0	46%	11/06/15
2015 PSP	1,688,368	1,121.0	12.0%	4.0	22%	374.0	1,121.0	46%	11/06/15
2015 DBP	3,863	1,121.0	12.0%	4.0	100%	–	1,121.0	46%	11/06/15

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

The DBMP Matching and PSP awards are split evenly between the performance criteria of TSR, EPS and ROCE, except that in 2015 whilst the PSP awards are split evenly between TSR and EPS. There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 79,475 matching shares (2017: 61,292 matching shares) at a cost of £0.6 million (2017: £0.6 million).

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

11 Income tax

Tax expense included in income statement

	2018 £000	2017 £000
Current tax:		
UK Corporation tax on profits for the year	**16,926**	14,814
Double tax relief	**(22)**	(959)
Overseas tax	**33**	1,247
Adjustment in respect of prior years	**(929)**	-
Current tax charge for the year	**16,008**	15,102
Deferred tax:		
Origination and reversal of temporary differences	**3,199**	(933)
Pension cost relief in excess of charge	**-**	4,108
Adjustment in respect of prior years	**517**	373
Impact of change in UK tax rate	**80**	(120)
Total deferred tax charge	**3,796**	3,428
Tax on profit on ordinary activities	**19,804**	18,530

Tax expense / (income) included in other comprehensive income	2018 £000	2017 £000
Deferred tax:		
- Origination and reversal of temporary differences	**3,290**	16,518
- Impact of change in UK tax rate	**(763)**	(3,431)
Tax expense / (income) included in other comprehensive income	**2,527**	13,087

11 Income tax *(continued)*

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

	2018 £000	2017 £000
Profit on ordinary activities before taxation	**108,893**	88,434
Profit on ordinary activities multiplied by standard UK corporation tax rate of 19% (2017: 20%)	**20,690**	17,686
Effects of:		
Income not subject to UK taxation	**(950)**	-
Expenses not deductible for tax purposes	**385**	303
Overseas tax	**33**	1,247
Double tax relief	**(22)**	(959)
Adjustments in respect of prior periods	**(929)**	-
Deferred tax - change in UK rate of tax	**80**	(120)
Deferred tax - adjustment in respect of prior periods	**517**	373
Total tax charge for the year	**19,804**	18,530

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

12 Intangible assets

	Software £000	Total £000
Cost		
At 1 April 2017	52,057	52,057
Additions	3,420	3,420
At 31 March 2018	**55,477**	**55,477**
Accumulated amortisation and impairment		
At 1 April 2017	(39,928)	(39,928)
Amortisation of software	(9,584)	(9,584)
At 31 March 2018	**(49,512)**	**(49,512)**
Net book value		
At 31 March 2018	**5,965**	**5,965**
At 31 March 2017	12,129	12,129

Notes to the financial statements *(continued)*

12 Intangible assets *(continued)*

As at 31 March 2018, £3.1 million (2017: £6.3 million) of assets were classed as under construction. This primarily relates to the phased roll out/upgrade of software.

13 Tangible fixed assets

	Freehold property £000	Plant and Equipment £000	Total £000
Cost			
At 1 April 2017	100,676	287,120	387,796
Additions	23,532	3,274	26,806
Disposals	-	-	-
At 31 March 2018	**124,208**	**290,394**	**414,602**
At 1 April 2017	(70,986)	(183,091)	(254,077)
Charge for the year	(1,892)	(12,748)	(14,640)
Disposals	-	-	-
At 31 March 2018	**(72,878)**	**(195,839)**	**(268,717)**
Net book value			
At 31 March 2018	**51,330**	**94,555**	**145,885**
At 31 March 2017	29,691	104,028	133,719

As at 31 March 2018, £68.4 million (2017: £41.6 million) of assets were classed as under construction.

14 Investments

	2018			2017		
	Shares in group undertakings £000	**Shares in joint ventures £000**	**Total £000**	Shares in group undertakings £000	Shares in joint ventures £000	Total £000
Carrying amount at 1 April and 31 March	-	**1,015**	**1,015**	-	-	-

The directors believe that the carrying value of investments is supported by their underlying net assets.

Notes to the financial statements *(continued)*

15 Inventories

	2018 £000	2017 £000
Raw materials	**4,557**	5,080

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amount.

The cost of inventory recognised as an expense and included in 'cost of sales' amounted to £64,734,771 (2017: £61,493,718).

During the year £1,284,447 was credited (2017: £1,334,043 credited) to 'cost of sales' in relation to impairment of inventory.

16 Trade and other receivables

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade receivables	**8,980**	16,518
Amounts recoverable on contracts	**79,587**	20,960
Amounts owed by group undertakings	**460,200**	498,440
Other receivables	**15,805**	12,322
Prepayments and accrued income	**5,469**	7,548
	570,041	555,788

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

There are thirteen major loans (2017: eleven) to group companies:

- A loan of £60,000,000 (2017: £60,000,000) is repayable on demand, the interest rate is six monthly LIBOR plus 4%.
- Twelve loans totalling £293,013,000 (2017: ten loans totalling £311,740,000) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £nil (2017: £nil).

Notes to the financial statements *(continued)*

17 Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year:		
Trade creditors	**61,584**	41,328
Payments received on account	**36,535**	52,841
Amounts owed to parent and group undertakings	**129,662**	148,931
Taxation and social security	**6,926**	6,807
Other payables	**-**	-
Accruals and deferred income	**69,800**	66,182
	304,507	316,089

Amounts falling due after more than one year:

	2018 £000	2017 £000
Accrual and deferred income	**912**	1,033
	912	1,033

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Deferred income falling due after more than one year represents revenue deferred to meet the costs of renewing the Frigate Complex Roof.

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 23(a)).

18 Provisions for other liabilities and charges

	Warranty Provision £000	Total £000
At 1 April 2017	**1,451**	**1,451**
Charged to the income statement	(1,411)	(1,411)
At 31 March 2018	**40**	**40**

The warranty provisions relate to onerous contracts and warranty obligations on completed contracts and disposals.

Notes to the financial statements *(continued)*

19 Other financial assets and liabilities

Includes the following derivative financial instruments at fair value:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Derivative financial instruments				
Forward FX contracts – cash flow hedges	13	(145)	7	(1,024)
Total	13	(145)	7	(1,024)
Less non-current portion				
Forward FX contracts – cash flow hedges	-	-	-	(97)
Current portion	13	(145)	7	(1,121)

Non-derivative financial instruments recorded under cash and cash equivalents include:

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Foreign currency cash deposits	115	-	-	(7)

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.

Trading derivatives are classified as a current asset or liability. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hedged item is less than 12 months.

At 31 March 2018, the Company held forward currency contracts designated as hedges of expected future sales to customers in the Euro Zone for which the Company has firm commitments. A mix of forward currency contracts and foreign currency cash deposits are being used to hedge the foreign currency risk of the firm commitments. The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2018 were £180,340 (2017: £15,730,109).

The hedged transactions denominated in foreign currency are due to occur at various dates during the next twelve months. Gains and losses recognised in the hedging reserve in equity as at 31 March 2018 will be recognised in the income statement in the period or periods in which the hedged forecast transactions impact the income statement.

Notes to the financial statements *(continued)*

19 Other financial assets and liabilities *(continued)*

Amounts charged to other comprehensive income:

	2018 £000	2017 £000
Hedging reserve at 1 April	**(1,120)**	7
Amounts charged to other comprehensive income:		
- Gain/(loss) on derivative financial instruments maturing in year recycled to income statement	**1,016**	(301)
- (Loss) on derivative financial instruments recorded under equity	**(34)**	(1,113)
- Gain on non-derivative financial instruments	**121**	287
	1,103	(1,127)
Hedging reserve at 31 March	**(17)**	(1,120)

20 Deferred taxation

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

Deferred tax liabilities/(assets)	**Accelerated capital allowances £000**	**Retirement benefit obligations £000**	**Other £000**	**Total £000**
At 1 April 2017:	**3,547**	**23,546**	**(212)**	**26,881**
- (Credited)/Charged to the income statement	(166)	3,982	(20)	3,796
- (Credited)/Charged to other comprehensive income	-	2,337	190	2,527
At 31 March 2018:	**3,381**	**29,865**	**(42)**	**33,204**

Deferred tax assets are recognised for pension liabilities accrued in the financial statements that are deductible for tax purposes only when paid. The directors are of the opinion that the Company will generate suitable taxable profits from which the future reversal of the timing difference can be deducted.

Notes to the financial statements *(continued)*

21 Called up share capital

	2018	2017
	£000	£000
Allotted and fully paid		
5,350,001 ordinary shares of £1 each (2017: 5,350,001)	5,350	5,350
1 special share of £1 each (2017: 1)	-	-
	5,350	5,350

The special share issued to the Secretary of State for Defence, has rights attaching that effectively give him the power, under certain extreme circumstances set out in the Company's Articles of Association, to overrule the votes of the ordinary shares. In all other respects both classes of shares rank pari passu.

22 Dividends

Dividends declared and paid were £25,000,000 (2017: £20,000,000), this is equivalent to 467.29 pence per share (2017: 373.83 pence). There are no plans for a final dividend. Dividends declared and received were £5,000,000 (2017: £nil), this is equivalent to 93.46 pence (2017: nil pence).

23 Guarantees and financial commitments

a) Contingent liabilities

At 31 March 2017 the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £347.1 million (2017: £439.3 million) provided to certain Group companies. In addition, the Company at the 31 March 2018 had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2017: £nil).

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

b) Operating lease commitments

At 31 March 2018, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2018		2017	
	Land and buildings £000	**Other £000**	Land and buildings £000	Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	**966**	**1,306**	906	1,136
- between two and five years	**1,866**	**2,800**	1,623	2,602
- after five years	**1,205**	**208**	1,454	613
	4,037	**4,314**	3,983	4,351

23 Guarantees and financial commitments

The entity leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases.

c) Capital Commitments

At 31 March 2018 the Company had capital commitments of £8,947,000 (2017: £12,787,000) for the purchase of tangible and intangible fixed assets.

24 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.

The son of one director was employed by the company during the year. He is employed and paid under the same terms and conditions as other employees performing similar roles in the company.

For the year ended 31 March 2018, the Company had no transactions or balances outstanding with related companies that fall outside the FRS 101 exemption criteria.

25 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes to a defined contribution scheme (the "Babcock International Group Defined Contribution Scheme") in respect of a number of its employees.

The Company operates a defined benefit pension scheme, the "Devonport Royal Dockyard Pension Scheme" for the benefit of its employees. The full details of this scheme are disclosed below.

The Company was previously a contributing employer to another defined benefit scheme, the "Babcock International Group Pension Scheme". No contributions have been made during this financial year.

The key risks for the "Devonport Royal Dockyard Pension Scheme" 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 scheme has mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee. This has significantly hedged the interest rate and inflation risk through derivative instruments, and introduced benefit changes impacting future service benefits which include capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

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

The cost included as a charge to the income statement in these financial statements was:

	2018	2017
	£000	£000
Devonport Royal Dockyard Pension Scheme	**17,484**	16,225
Babcock International Group Pension Scheme	**-**	-
Babcock International Group Defined Contribution Scheme	**5,729**	4,966
	23,213	21,191

The total charge to 'cost of sales' in relation to current service costs was £34,436,000 (2017: £22,953,000). Finance income in relation to net pension interest was £3,767,000 (2017: £1,495,000).

The total actuarial gain recognised in the SOCI in these financial statements was:

	2018	2017
	£000	£000
Devonport Royal Dockyard Pension Scheme	**16,215**	83,716
Babcock International Group Pension Scheme	**-**	-
	16,215	83,716

The total asset recognised on the balance sheet in these financial statements was:

	2018	2017
	£000	£000
Devonport Royal Dockyard Pension Scheme	**175,676**	138,505
Babcock International Group Pension Scheme	**-**	-
	175,676	138,505

25 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme

The IAS 19 valuation has been updated at 31 March 2018 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 2017. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2018**	2017	2016
	%	%	%
Rate of increase in salaries	**2.2**	2.3	2.2
Rate of increase in pension payment	**2.1**	2.2	2.1
Discount rate	**2.6**	2.6	3.5
Inflation	**2.0**	2.1	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2018/19 are £32.3m. The future service rate is 19.2%. The above level of funding will be reviewed following the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £32.3m is £18.6m of deficit recovery payments.

The mortality assumptions used were:

	2018	2017	2016
	Years	Years	Years
Life expectancy from age 65 (Male aged 65)	**21.1**	21.2	21.4
Life expectancy from age 65 (Male aged 45)	**22.2**	22.4	23.2

The changes to the Company balance sheet at March 2018 and the changes to the Company income statement for the year to March 2019, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2018 £000	**Income statement 2019 £000**
Initial assumptions	1,665,838	14,740
Discount rate assumptions increased by 0.5%	1,533,318	7,693
Discount rate assumptions decreased by 0.5%	1,798,358	20,413
Inflation rate assumptions increased by 0.5%	1,781,041	28,868
Inflation rate assumptions decreased by 0.5%	1,561,575	10,922
Total life expectancy increased by half a year	1,696,540	15,754
Total life expectancy decreased by half a year	1,635,136	13,749
Salary increase assumptions increased by 0.5%	1,694,614	15,957
Salary increase assumptions decreased by 0.5%	1,637,309	13,558

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2018 were:

Fair value of plan of assets	**2018**	2017
	£000	£000
Equities	**378,352**	449,461
Property	**123,495**	100,344
Absolute return and multi strategy funds	**46,663**	8,057
Bonds	**492,785**	428,713
Matching assets	**851,754**	878,876
Active position on longevity swaps	**(51,535)**	(45,373)
Total assets	**1,841,514**	1,820,078
Present market value of liabilities – funded	**(1,665,838)**	(1,681,574)
Gross pension surplus	**175,676**	138,504

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

The scheme does not invest directly in assets or shares of Babcock International Group PLC. Investments have been valued for this purpose at fair value at the balance sheet date. Equity investments and bonds are valued at bid price.

The longevity swaps have been valued, in 2018, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Analysis of amount charged to the income statement	**2018**	2017
	£000	£000
Current service cost	**20,370**	16,959
Incurred expenses	**881**	761
Total included within operating profit	**21,251**	17,720
Net interest cost	**(3,767)**	(1,495)
Total charged to the income statement	**17,484**	16,225

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

a) Devonport Royal Dockyard Pension Scheme *(continued)*

Analysis of amount included in statement of comprehensive income ("SOCI")	**2018 £000**	2017 £000
Actuarial (losses)/gains recognised in the SOCI	**20,460**	(244,250)
Experience gains	**737**	349,118
Other (losses)/gains	**(4,982)**	(21,152)
	16,215	83,716

Reconciliation of present value of scheme assets, including reimbursement rights	**2018 £000**	2017 £000
At 1 April	**1,820,078**	1,461,809
Interest on assets	**48,220**	66,691
Interest on reimbursement rights	**-**	-
Actuarial gains	**12,360**	335,337
Actuarial (loss) on reimbursement rights	**(6,162)**	(21,971)
Experience gains	**-**	-
Benefits paid	**(71,517)**	(58,610)
Contributions paid by employer	**38,440**	36,727
Employee contributions	**95**	95
At 31 March	**1,841,514**	1,820,078

Reconciliation of present value of scheme liabilities	**2018 £000**	2017 £000
At 1 April	**1,681,573**	1,427,523
Current service cost	**20,370**	16,959
Incurred expenses	**881**	761
Interest cost	**43,273**	49,225
Employee contributions	**95**	95
Benefits paid	**(71,517)**	(58,610)
Experience (gain)/loss	**11,623**	(1,371)
Actuarial (gain)/loss	**(20,460)**	244,250
At 31 March	**1,665,838**	1,681,574

Notes to the financial statements *(continued)*

25 Pension commitments *(continued)*

b) Babcock International Group Pension Scheme

The amount 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 £nil (2017: £nil).

c) Babcock International Group Defined Contribution Scheme

The pension charge for the year represents contributions payable by the Company to the scheme and amounted to £5,729,078 (2017: £4,966,000). The amount included in creditors at the year end in respect of this scheme was £65,627 (2017: £78,200).

26 Ultimate parent undertaking

The Company's immediate parent company is Babcock Marine (Devonport) Limited, a limited liability partnership registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is Babcock International Group PLC.

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

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