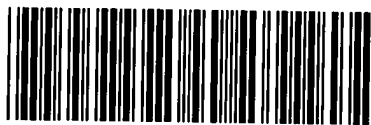


**Rosyth Royal Dockyard Limited**  
**Annual report**  
**For the year ended 31 March 2018**  
**Company registration number:**  
**SC101959**

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## **Rosyth Royal Dockyard Limited**

### **Directors and advisors**

#### **Current Directors**

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

#### **Joint company secretaries**

J M Wood  
Babcock Corporate Secretaries Limited

#### **Registered office**

Rosyth Business Park  
Rosyth  
Dunfermline  
Fife  
KY11 2YD

#### **Independent auditors**

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

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## **Rosyth Royal Dockyard Limited**

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

#### **Review of the business**

	<b>2018</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>
Revenue	<b>103,622</b>	95,491
Profit / (loss) for the financial year	<b>6,461</b>	634

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

The Company continued to make its employees and assets available to other Babcock International Group PLC companies and is also engaged in leasing land and buildings to commercial tenants and is currently undertaking works in relation to the Ministry of Defence (MoD) Submarine Dismantling Project. The Company continues to grow its port business with both bulk and specialist project cargoes.

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

In relation to the Submarine Dismantling Project (SDP) at the Rosyth Dockyard, significant infrastructure improvements and modifications, required to enable the safe removal of Low Level Waste under the contract, have been completed and a Qualifying Defence Contract under the Single Source Regulations has been agreed with the Ministry of Defence for the removal of Low Level Waste (LLW) from the laid up submarine Swiftsure for the SDP. This project is a demonstration and proof of concept for the removal and processing of the waste, and the lessons learned will be used to inform future dismantling of other laid up submarines. Over 70 tonnes of solid metallic waste has been successfully removed from the submarines reactor compartment, and this waste will be processed, recycled where possible and disposed of through the established disposal routes available in the United Kingdom. The planning for the next submarine docking is underway including the necessary infrastructure modifications and procurement of supporting equipment and tooling.

#### **Principal risks and uncertainties**

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

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

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## **Rosyth Royal Dockyard Limited**

### **Strategic report for the year ended 31 March 2018 *(continued)***

#### **Principal risks and uncertainties *(continued)***

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**

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

The Rosyth International Container Terminal (RICT) development continues to progress the Marine Licence Application process with Marine Scotland that would allow the Company to apply for a marine licence to dredge. When approved, the Company can review the final investment decision for the project and, if acceptable, progress the approval by the Scottish Ministers of a Construction and Environmental Management Plan (CEMP) for the works.

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

#### **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs. All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 26 to 29 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

##### *Price risk*

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

##### *Credit risk*

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

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## **Rosyth Royal Dockyard Limited**

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

### **Financial risk management** *(continued)*

#### *Liquidity risk*

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

#### *Interest rate cash flow risk*

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

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## Rosyth Royal Dockyard Limited

### Strategic report for the year ended 31 March 2018 *(continued)*

#### Key performance indicators

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

	2018	2017	
Revenue Growth	8.5%	(0.8)%	Increase in revenue when compared to that in the previous year.  <b>The movement primarily reflects increased revenues from SDP activities.</b>
Operating Return on Revenue	9.5%	5.7%	Operating profit expressed as a percentage of revenue.  <b>The improved return is due to an increased level of commercial contracts.</b>
Headcount growth	(12.9)%	(4.8)%	Decrease in the number of employees at the end of the year compared to the start of the year.  <b>The change reflects a reduction in the number of employees engaged by the Company's parent on the QEC aircraft carrier contract.</b>
Occupancy levels for leased properties	94.1%	94.0%	Area leased to external tenants compared with that available for leasing.  <b>Demonstrates continued high occupancy of available space.</b>
Total injuries per 100,000 hours worked	1.4	1.9	The data is for all reported injuries.  <b>Health and safety is a core value for the Company, the reduced accident rate reflects continuing good performance.</b>
Number of Apprentices	78	88	Number at the end of the year.  <b>Apprentices are primarily engaged by the parent company on support to the QEC aircraft carrier and commercial contracts.</b>

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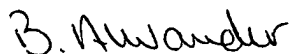
**Rosyth Royal Dockyard Limited**

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

**Key performance indicators *(continued)***

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

On behalf of the board



B R Alexander

Director

19 July 2018

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## **Rosyth Royal Dockyard Limited**

### **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**

No dividends were declared or paid during the financial year (2017: £nil).

#### **Future developments**

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

#### **Directors**

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

I S Urquhart  
D M Jones  
J A Donaldson  
J W Howie  
I S Donnelly (resigned 19 February 2018)  
J M Dixon (appointed 19 February 2018)  
B R Alexander  
W R Watson

#### **Employment of disabled persons**

The Company encourages an inclusive workplace culture and our policy is to give full consideration to applications for employment from disabled persons who have the aptitudes and abilities to meet the requirements of the job. An employee who is disabled, or becomes disabled, will continue to be employed where possible under the same terms and conditions and reasonable adjustments would be made. Training and career development applies wherever appropriate to all employees, including disabled persons to support employees to the best of their ability.

#### **Employee involvement**

The Company communicates regularly with its employees via briefings and discussions, by written communications on specific topics and on more general issues through the bi-monthly 'Rosyth Review' bulletin. In addition the Marine Sector also produces a quarterly employee magazine 'The Source' with key employee engagement activities. The Company routinely discusses issues affecting its employees with the employees' trade unions' representatives and this interaction is further enhanced through a bi-annual Engagement Survey. Employees can share in the fortunes of the group by electing to join the Babcock All Employee Share Option Plan (AESOP).

#### **Safety policy**

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company. This commitment to Health & Safety excellence has led the Company to seek to achieve certification in this area and the group was successful in maintaining certification to the OHSAS18001 standard during the 2017/18 financial year.



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## **Rosyth Royal Dockyard Limited**

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

#### **Safety policy *(continued)***

The strategic focus on health and safety performance, behaviour and culture continued throughout the financial year, managed by a joint team drawn from across the business with regular performance feedback to all employees. The Company expanded the Visible Leadership Programme during the year to include customer representatives and alliance partners whereby each senior manager visits a different area of the business each month to discuss health and safety issues with the workforce. The rate of reportable accidents per 100,000 hours of work during the financial year was 0.12 (2017 = 0.15).

#### **Environment**

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

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

#### **Statement of directors' responsibilities**

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

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

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

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

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

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## **Rosyth Royal Dockyard Limited**

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

#### **Going concern statement**

The Company had net liabilities at 31 March 2018, primarily due to the pension scheme deficit. The directors believe that, having regard to the Company's prospects for future business, and having agreed a recovery plan for the pension scheme deficit with the scheme's trustees, the Company remains a going concern. Further, Babcock Marine (Rosyth) Limited, the Company's immediate parent undertaking, has confirmed its intention to ensure that the Company is able to meet its liabilities as they fall due.

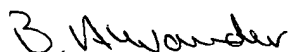
#### **Qualifying third party indemnity provisions**

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

#### **Statement of disclosure of information to auditors**

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

On behalf of the board



B R Alexander

Director

19 July 2018

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

**Report on the audit of the financial statements**

**Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 March 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 and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

**Basis for opinion**

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

**Independence**

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

**Conclusions relating to going concern**

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.

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

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

**Reporting on other information** *(continued)*

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

**Responsibilities for the financial statements and the audit**

**Responsibilities of the directors for the financial statements**

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

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

**Auditors' responsibilities for the audit of the financial statements**

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

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 auditors' report.

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## **Rosyth Royal Dockyard Limited**

### **Independent auditors' report to the members of Rosyth Royal Dockyard Limited** *(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.

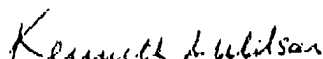
#### **Other required reporting**

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.



Kenneth Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
19 July 2018

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## Rosyth Royal Dockyard Limited

### Income statement

for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Revenue	4	103,622	95,491
Cost of sales		<u>(93,798)</u>	<u>(90,047)</u>
Operating profit	6	9,824	5,444
Finance income	5	200	296
Other finance costs	'20	<u>(4,124)</u>	<u>(4,684)</u>
Profit before income tax		5,900	1,056
Income tax expense	10	<u>561</u>	<u>(422)</u>
Profit for the financial year		<u>6,461</u>	<u>634</u>

All of the above results derive from continuing operations.

### Statement of comprehensive Income

for the year ended 31 March 2018

	Note	2018 £000	2017 £000
Profit for the financial year		<u>6,461</u>	<u>634</u>
Other comprehensive income / (expense):			
<i>Items that will not be subsequently reclassified to income statement:</i>			
Gain / (loss) on remeasurement of net defined benefit obligation	20	17,151	(29,551)
Total comprehensive income / (expense) for the year		<u>23,612</u>	<u>(28,917)</u>

## Rosyth Royal Dockyard Limited

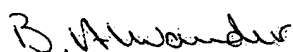
### Balance sheet

as at 31 March 2018

	Note	2018 £000	2017 £000
<b>Fixed assets</b>			
Tangible assets	11	54,108	55,135
Investments	12	-	-
		<b>54,108</b>	<b>55,135</b>
<b>Current assets</b>			
Trade and other receivables	13	11,328	25,856
Cash and cash equivalents		608	608
		<b>11,936</b>	<b>26,464</b>
Trade and other payables	14	-	(95)
<b>Net current assets</b>		<b>11,936</b>	<b>26,369</b>
<b>Total assets less current liabilities</b>		<b>66,044</b>	<b>81,504</b>
Gross pension liabilities	20	(125,080)	(164,152)
<b>Net liabilities</b>		<b>(59,036)</b>	<b>(82,648)</b>
<b>Equity</b>			
Called up share capital	16	250	250
Share premium account		32,300	32,300
Accumulated losses		(91,586)	(115,198)
<b>Total shareholders' deficit</b>		<b>(59,036)</b>	<b>(82,648)</b>

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

The financial statements on pages 13 to 36 were approved by the board of directors on 19 July 2018 and signed on its behalf by:



B R Alexander  
Director  
19 July 2018

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**Rosyth Royal Dockyard Limited****Statement of changes in equity**  
*for the year ended 31 March 2018*

	<b>Called-up share capital £000</b>	<b>Share premium account £000</b>	<b>Accumulated losses £000</b>	<b>Total Shareholders' deficit £000</b>
<b>Balance at 1 April 2016</b>	250	32,300	(86,281)	(53,731)
Profit for the year	-	-	634	634
Other comprehensive income	-	-	(29,551)	(29,551)
<b>Balance at 31 March 2017</b>	<b>250</b>	<b>32,300</b>	<b>(115,198)</b>	<b>(82,648)</b>
Profit for the year	-	-	6,461	6,461
Other comprehensive expense	-	-	17,151	17,151
<b>Balance at 31 March 2018</b>	<b>250</b>	<b>32,300</b>	<b>(91,586)</b>	<b>(59,036)</b>



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# **Rosyth Royal Dockyard Limited**

## **Notes to the financial statements**

### **1 General information**

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

### **2 Summary of significant accounting policies**

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

#### **Basis of preparation**

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006 as applicable to companies using FRS101. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £000.

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

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

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'

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

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

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

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

**Revenue**

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

**(a) Sale of goods**

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

**(b) Sale of services**

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

**(c) Long-term service contracts**

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

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

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

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

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

**Property, plant and equipment**

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

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

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

**Investments**

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

**Inventory and work in progress**

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

**Trade receivables**

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

**Share based payments**

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

**Taxation**

**(a) Current income tax**

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

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

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

**Taxation (continued)**

**(b) Deferred income tax**

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

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

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

**Pensions costs and other post-retirement benefits**

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

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

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

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

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

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

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## **Rosyth Royal Dockyard Limited**

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

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

##### **Foreign currencies**

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

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

##### **Operating leases**

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

##### **Finance leases**

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

##### **Provisions for liabilities**

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

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

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

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

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

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

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

**3 Critical accounting estimates and judgements**

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

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

**Defined benefit pension scheme**

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures of the defined benefit pension schemes.

**Contract accounting**

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

# Rosyth Royal Dockyard Limited

## Notes to the financial statements (continued)

### 4 Revenue

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

	2018 £000	2018 £000	2018 £000	2018 £000	2018 £000
	Supply of employees and assets	Submarine dismantling	Property leasing	Commercial Port	Total
By area of activity:					
Rendering of services	82,584	-	-	471	83,055
Long term contracts	-	19,709	-	-	19,709
Rental income	-	-	858	-	858
	<b>82,584</b>	<b>19,709</b>	<b>858</b>	<b>471</b>	<b>103,622</b>

	2017 £000	2017 £000	2017 £000	2017 £000	2017 £000
	Supply of employees and assets	Submarine dismantling	Property leasing	Commercial Port	Total
By area of activity:					
Rendering of services	86,079	-	-	627	86,706
Long term contracts	-	8,019	-	-	8,019
Rental income	-	-	766	-	766
	<b>86,079</b>	<b>8,019</b>	<b>766</b>	<b>627</b>	<b>95,491</b>

All the revenue in the year ended 31 March 2018 originated in the United Kingdom.

### 5 Finance income

	2018 £000	2017 £000
Finance income:		
Bank interest	-	1
Capitalised interest on capital expenditure	200	295
	<b>200</b>	<b>296</b>

## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 6 Operating profit

Operating profit is stated after charging :

	2018 £000	2017 £000
Depreciation of tangible fixed assets	4,523	3,906
Operating lease charges – land and buildings	13	14

The audit fee in both the current and prior financial year was borne by the immediate parent company. The amount of such audit fee was £39,282 (2017: £12,000).

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group financial statements are required to comply with the statutory disclosure requirements.

#### 7 Staff costs

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

	2018 Number	2017 Number
<b>By activity:</b>		
Operations	1,436	1,506
Management and administration	106	149
	<u>1,542</u>	<u>1,655</u>

Their aggregate remuneration comprised:

	2018 £000	2017 £000
Wages and salaries	60,459	65,012
Social security costs	6,345	6,780
Other pension costs	12,835	11,862
	<u>79,639</u>	<u>83,654</u>

Included in wages and salaries is a total expense of share-based payments of £324,000 (2017: £445,000), of which £324,000 (2017: £445,000) arises from transactions accounted for as equity settled share-based payment transactions.

Included in other pension costs are £10,207,000 (2017: £9,330,000) in respect of defined benefit schemes and £2,628,000 (2017: £2,532,000) in respect of the defined contribution scheme.



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## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 7 Staff costs (continued)

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

#### 8 Directors' remuneration

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

	2018 £000	2017 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	378	403
Defined contribution pension scheme	-	-
	<u>378</u>	<u>403</u>

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

Retirement benefits are accruing to no (2017: nil) directors under defined benefit pension schemes.

Retirement benefits are accruing to no (2017: nil) directors under defined contribution pension schemes.

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

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

	2018 £000	2017 £000
Emoluments (excluding pension contributions)	225	312
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	-	-
Defined benefit pension scheme:		
- Accrued pension at the end of the year	61	61
- Accrued lump sum at the end of the year	-	-

The highest paid director exercised shares under long term incentive plans (2017: the highest paid director exercised share options under long term incentive plans).

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

**9 Share based payments**

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below are included within the Remuneration report, which is provided on pages 98 to 130 of the annual report of Babcock International Group PLC which does not form part of this report.

During the year the total charge relating to employee share-based payment plans was £164,000 (2017: £445,000), all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £132,840 (2017: £356,000).

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

**DBMP, PSPS, AND DBP<sup>1</sup>**

	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 for 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 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).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year the Group bought no matching shares (2017: 1,000 matching shares) to be used when vesting is due to begin in 2019.

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

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## Rosyth Royal Dockyard Limited

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

#### 10 Income tax expense

##### Tax expense included in income statement

	2018 £000	2017 £000
<b>Current tax:</b>		
UK Corporation tax on profits for the year	-	-
Adjustment in respect of prior year	-	-
<b>Current tax charge for the year</b>	-	-
<b>Deferred tax:</b>		
Origination and reversal of timing differences	(567)	421
Adjustments in respect of prior years	(54)	49
Impact of change in UK tax rate	60	(48)
<b>Total deferred tax charge (note 15)</b>	(561)	422
<b>Tax on profit</b>	(561)	422

The tax expense for the year is lower (2017: higher) than the standard 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
<b>Profit before taxation</b>	<b>5,900</b>	<b>1,056</b>
Profit multiplied by standard UK corporation tax rate of 19% (2017: 20%)	1,121	211
Effects of:		
Adjustments in respect of prior years	(54)	49
Expenses not deductible for tax purposes	161	620
Deferred tax not provided	(4,165)	(1,221)
Group relief surrendered for nil consideration	2,316	811
Impact of change in UK tax rate	60	(48)
<b>Total tax charge for the year</b>	<b>(561)</b>	<b>422</b>

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

# Rosyth Royal Dockyard Limited

## Notes to the financial statements (continued)

### 11 Tangible assets

	Freehold property £000	Investment property £000	Specialised Marine Facilities £000	Plant and equipment £000	Total £000
<b>Cost</b>					
At 1 April 2017	23,923	2,023	50,597	9,774	86,317
Additions	3,496	-	-	-	3,496
Disposals	(5)	-	-	-	(5)
<b>At 31 March 2018</b>	<b>27,414</b>	<b>2,023</b>	<b>50,597</b>	<b>9,774</b>	<b>89,808</b>
At 1 April 2017	(8,797)	(2,023)	(12,401)	(7,961)	(31,182)
Charge for the year	(847)	-	(3,100)	(576)	(4,523)
Disposals	5	-	-	-	5
<b>At 31 March 2018</b>	<b>(9,639)</b>	<b>(2,023)</b>	<b>(15,501)</b>	<b>(8,537)</b>	<b>(35,700)</b>
<b>Net book value</b>					
<b>At 31 March 2018</b>	<b>17,775</b>	<b>-</b>	<b>35,096</b>	<b>1,237</b>	<b>54,108</b>
At 31 March 2017	15,126	-	38,196	1,813	55,135

Investment property comprises a number of buildings (or parts thereof) and areas of land on the Rosyth site. Such property has been accounted for using the cost model. The fair value at year end of properties that can practicably be measured is £2,900,000 (2017: £2,900,000), their net book value under the cost model is nil (2017: £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.

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## Rosyth Royal Dockyard Limited

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

#### 12 Investments

	2018	2017
	Shares in group undertakings £000	Shares in group undertakings £000
Cost and carrying amount		
At 31 March	-	-

#### 13 Trade and other receivables

	2018 £000	2017 £000
Amounts falling due within one year:		
Amounts owed by group undertakings	10,862	25,856
Deferred tax asset (note 15)	466	-
	<u>11,328</u>	<u>25,856</u>

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

There is one loan (2017: one) to group companies for a total of £19,500,000 (2017: £19,500,000) and for which no interest is charged.

#### 14 Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year:		
Deferred tax liability (note 15)	-	95
	<u>-</u>	<u>95</u>

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## Rosyth Royal Dockyard Limited

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

#### 15 Deferred taxation

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

	Accelerated capital allowances £000
<b>Deferred tax asset / (liability)</b>	
At 1 April 2017:	(95)
- Charged to the income statement	561
- (Charged) / credited to other comprehensive income	-
At 31 March 2018:	<u>466</u>

#### 16 Called up share capital

	2018 £000	2017 £000
<b>Allotted and fully paid</b>		
200,002 ordinary shares of £1 each (2017: 200,002)	200	200
49,998 "A" ordinary shares of £1 each (2017: 49,998)	<u>50</u>	<u>50</u>
	<u>250</u>	<u>250</u>

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.

#### 17 Dividends

No dividends have been declared or paid (2017: Nil). There are no plans for a final dividend.

#### 18 Guarantees and financial commitments

##### a) Contingent liabilities

At 31 March 2018 the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £347,100,000 (2017: £439,300,000) 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.

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## Rosyth Royal Dockyard Limited

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

#### 18 Guarantees and financial commitments *(continued)*

##### b) Operating lease commitments

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

	<b>2018 Land and buildings £000</b>	<b>2018 Other £000</b>	<b>2017 Land and buildings £000</b>	<b>2017 Other £000</b>
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	<b>13</b>	-	13	-
- between one and five years	<b>52</b>	-	52	-
- after five years	<b>741</b>	-	755	-
	<b>806</b>	-	820	-

##### c) Capital Commitments

At 31 March 2018 the Company had capital commitments of £nil (2017: £7,157,000) for the purchase of plant and equipment and completion of the construction of a new building.

#### 19 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group Plc and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group Plc, for which the consolidated financial statements are publicly available.

There were no (2017: none) other transactions during the year or balances at the end of the year (2017: none) with related parties.

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

**20 Pension commitments**

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

The Company is also a contributing employer to a defined benefit scheme, the "Rosyth Royal Dockyard Pension Scheme" (RRDL). The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The Company has ceased to be a contributing employer to another defined benefit scheme (the "Babcock International Group Pension Scheme").

The nature of the RRDL scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

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



## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 20 Pension commitments (continued)

##### Rosyth 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 2015. The major assumptions used for the IAS 19 valuation were:

	2018 %	2017 %	2016 %
<b>Major assumptions</b>			
Rate of increase in salaries	2.2	2.3	2.2
Rate of increase in pension payment	3.2	3.3	3.0
Discount rate	2.6	2.6	3.5
Inflation	3.1	2.1	1.9

The expected total employer contributions to be made by participating employers to the scheme in 2018/19 are £28,500,000. The future service rate is 21.5%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £28,500,000 is £17,500,000 of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2018 Years	2017 Years	2016 Years
Life expectancy from age 65 (male age 65)	20.2	20.3	19.2
Life expectancy from age 65 (male age 45)	21.3	21.5	23.2

## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 20 Pension commitments (continued)

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

	Defined benefit obligations 2018 £m	Income statement 2019 £m
Initial assumptions	1,019,307	11,638
Discount rate assumptions increased by 0.5%	935,093	8,083
Discount rate assumptions decreased by 0.5%	1,103,521	12,333
Inflation rate assumptions increased by 0.5%	1,092,751	12,957
Inflation rate assumptions decreased by 0.5%	951,960	8,485
Total life expectancy increased by half a year	1,040,819	11,301
Total life expectancy decreased by half a year	997,795	9,989
Salary increase assumptions increased by 0.5%	1,025,228	10,967
Salary increase assumptions decreased by 0.5%	1,013,404	10,326

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 assets	2018 £'000	2017 £'000
Equities	203,625	273,449
Property	61,197	55,487
Absolute return and multi strategy funds	27,032	3,262
Bonds	186,862	138,961
Matching assets	448,448	441,695
Active position on longevity swaps	(66,347)	(60,055)
Total assets	860,817	852,779
Present market value of liabilities - funded	(1,019,307)	(1,059,811)
Gross pension deficit	(158,490)	(207,012)

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.

## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 20 Pension commitments (continued)

The longevity swaps have been valued, in 2018, in line with assumptions that are consistent with the requirements of IFRS 13.

<b>Analysis of amount charged to the income statement in Babcock International Group Plc</b>	<b>2018 £000</b>	<b>2017 £000</b>
Current service cost	7,112	5,250
Incurred expenses	596	609
Total included within operating profit	7,708	5,859
Net interest cost	5,225	5,907
<b>Total charged to the income statement</b>	<b>12,933</b>	<b>11,766</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 £5,613,000 for service cost (2017: £4,163,000), £470,000 for incurred expenses (2017: £483,000), and net interest cost of £4,124,000 (2017: £4,684,000).

<b>Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")</b>	<b>2018 £000</b>	<b>2017 £000</b>
Actuarial gain / (loss) recognised in the SOCl	17,011	(234,847)
Experience gains	17,748	218,539
Other gains (losses)	(4,731)	(20,816)
	<b>30,028</b>	<b>(37,124)</b>

The actuarial gain recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £17,151,000 (2017: £29,550,000 loss).

The equity investments and bonds are valued at bid price.

	<b>2018 £000</b>	<b>2017 £000</b>
<b>Reconciliation of present value of scheme assets in Babcock International Group Plc</b>		
At 1 April	912,854	700,688
Interest on assets	23,603	24,311
Employer contributions	31,427	15,374
Employee contributions	13	12
Benefits paid	(49,378)	(31,750)
Actuarial gain	8,645	204,219
At 31 March	<b>927,164</b>	<b>912,854</b>

## Rosyth Royal Dockyard Limited

### Notes to the financial statements (continued)

#### 20 Pension commitments (continued)

	2018 £000	2017 £000
<b>Reconciliation of present value of scheme liabilities</b>		
At 1 April	1,059,811	836,271
Service cost	7,112	5,250
Incurred expenses	596	609
Interest on liabilities	27,267	28,891
Employee contributions	13	12
Actuarial (gain) / loss – demographics	(6,787)	58,403
Actuarial (gain) / loss – financial	(10,224)	176,445
Experience (gain)	(9,103)	(14,320)
Benefits paid	(49,378)	(31,750)
At 31 March	1,019,307	1,059,811

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 £125,080,000 (2017: £164,152,000).

#### BIG Pension Scheme

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 (2017: £nil), £nil for incurred expenses (2017: £nil), and net interest credit of £nil (2017: £nil).

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £nil (2017: £1,000).

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 £nil (2017: £nil).

#### 21 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Interest	Interest %
Rosyth Royal Dockyard Pension Trustees Limited <sup>1</sup>	United Kingdom	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

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## **Rosyth Royal Dockyard Limited**

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

#### **22 Ultimate parent undertaking**

The Company's immediate parent company is Babcock Marine (Rosyth) Limited, a company registered in Scotland. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

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

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