Rosyth Royal Dockyard Limited

Annual report and financial statements

for the year ended 31 March 2024

Registered number: **SC101959**

COMPANY INFORMATION

Directors	P J Craig A Misra P Watson G J Hedicker
Company secretary	Babcock Corporate Secretaries Limited
Registered Number	SC101959
Registered office	Babcock International Rosyth Business Park Rosyth Dunfermline Fife KY11 2YD
Independent auditor	Deloitte LLP 1 New Street Square, London, EC4A 3HQ

CONTENTS

Strategic report for the year ended 31 March 2024

The Directors present their Strategic report on the Company for the year ended 31 March 2024.

Principal activities

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

Business review

	2024	2023
	£'000	£'000
Revenue	**377,661**	304,429
Loss for the financial year	**(70,544)**	(135,158)

The Company continues to deliver the Type 31 frigate programme, with the superstructure of HMS Venturer almost complete. Work on the second ship, HMS Active, is progressing, and Steel Cut for the third ship, HMS Formidable, will take place in October 2024. In March 2024, we announced the intention to create more than 1,000 new jobs over the next four years at our advanced manufacturing and shipbuilding facility in Rosyth. These new roles, which include 400 apprenticeships will benefit the UK economy and local community.

Throughout financial year 2024, we have fully reviewed the Type 31 programme, including resolving the Dispute Resolution Process. Overall costs have increased due to the maturing of the design and the increase in the cost of labour in the market available in Rosyth, which is forecast to be higher than CPI, the indexation within the Type 31 contract. As a result, the outturn over the lifetime of the contract has deteriorated by £66million revenue de-trade and a £24million provision, which has been fully recognised in FY24. The cash impact of this loss is expected to be realised over the remainder of the contract. Full details of the estimates involved in assessing the contract outturn, along with the related estimation methods, data sources and management actions to offset the increase in year, are set out in note 3 (page 37).

During the year, we initiated an operational improvement programme to challenge all aspects of the contract, including a significant focus on cost drivers and financial modelling, supported by external consultants. The Audit Committee has reviewed the programme team's plans to deliver additional programme benefits from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

In relation to the Submarine Dismantling Project, the removal of low-level radioactive waste has been successfully completed on five of the laid-up submarines. The detailed design for removal of the intermediate level waste (ILW), i.e. the reactor pressure vessel, is ongoing with a view to undertaking ILW removal in 2025. Swiftsure docked down in year and will be the first UK nuclear submarine to be fully dismantled in a world first method, completing by the end of 2026.

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

Strategic report for the year ended 31 March 2024 *(continued)*

Business review *(continued)*

The leasing of surplus buildings and land to commercial tenants continues to meet expectations including the renewables technology centre in conjunction with a tenant. Occupancy levels remain high and rental fees in line with current market pricing. The port business continues to attract a range of customers, deliveries of dry bulk aggregate, concrete panels etc. have been in line with plan. The Company has continued to seek opportunities which complement its MoD activities by moving into the adjacent Maritime Design and Commercial markets, as well as looking to support other programmes which require high integrity manufacturing.

In Poland, we finalised the design licence agreement with the MIECZNIK consortium for the build of three Arrowhead 140 frigates for the Polish Navy. The steel-cut for ship one was held at the Gdynia shipyard in August 2023.

In relation to existing commercial contracts, the Company delivered against key milestones across a range of programmes in support of end customers including Sellafield and the Natural Environment Research Council (NERC) with whom a 5-year maintenance contract was secured last year to maintain their 3 research vessels. The 10-year maintenance contract continues with the MoD in respect of the 3 recertification dockings of the QEC Class aircraft carriers HMS Queen Elizabeth & HMS Prince of Wales which were originally built at Rosyth. The scope also includes provision of a facility for emergency dockings and HMS Queen Elizabeth docked in the year to undergo propellor shaft repairs.

Statement of financial position has deteriorated during the year with overall net liability of £317.5m (2023: £231.6m). As described above the T31e programme has impacted the financial position in the year, provisions have increased by £15m (note 17). Trade and other receivables and Trade and other payables have increased from the prior year, this is due to Group cash sweeps creating intercompany sweep loans. Non-current liabilities retirement benefit deficit increased by 8.59% (note 23).

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2024, which does not form part of this report.

The management of the business and the execution of the Company's strategy are subject to various 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 these risks by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and site obligations.

During the year, we initiated an operational improvement programme to challenge all aspects of the T31 contract, including a significant focus on cost drivers and financial modelling, supported by external consultants. The Audit Committee has reviewed the programme team's plans to deliver additional programme benefits from improvements in productivity and further work relating to the continuation of the Type 31 contract. We considered the available evidence in respect of these benefits against the evidential bar required to recognise them and decided not to take them fully into account in the loss, although we do expect the benefits to be delivered over the course of the programme.

In the next financial year, the construction of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over a further 4 years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

Strategic report for the year ended 31 March 2024 *(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 89 to 106 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

	2024	2023	
Revenue Growth from continuing operations	**24.06%**	7.03%	Increase in turnover due to Arrowhead design licences.
Operating Return on Turnover from continuing operations	**(18.40) %**	(34.93) %	Prior year deterioration is due to the provision created for the T31E design and build programme. A further provision has been created in the current year (Note 17)
Order book £'000	**973,297**	1,209,029	Order book is dominated by the T31E design which mainly contributes to the reduction in the year.
Total injuries per 100,000 hours worked.	**3.14**	1.87	Health and safety is a core value for the Company. Injuries have increased in year due to the ramp up of T31E design and build programme. New personnel onsite.

The growth and performance of the Marine Sector, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 44 to 47 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2024 *(continued)*

S172(1) statement and stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 60, 61 and 119 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

Customers

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

What matters to them:

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

How the Company engages:

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

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

Investors

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

What matters to them:

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

How the Company engages:

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

Suppliers

Why they matter to us:
The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the Company's implementation of the Group-wide Procurement Strategy as described on pages 16-17 and 86-87 of the annual report of Babcock International Group PLC.

What matters to them:

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

How the Company engages

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

Strategic report for the year ended 31 March 2024 *(continued)*

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

Regulators

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

What matters to them:
- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

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

Employees

Why they matter to us:
Employee engagement is a primary focus for the Directors of the Company. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Company's implementation of the Group-wide People Strategy as described on pages 12 to 17 and 80 to 84 of the annual report of Babcock International Group PLC, which does not form part of this report.

What matters to them:
- Remuneration and reward
- Professional development
- The Company’s aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

Strategic report for the year ended 31 March 2024 *(continued)*

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

Employees *(continued)*

How the Company engages:

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

Communities

Why they matter to us:
We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy.

What matters to them:

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

How the Company engages:

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

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

Business relationships

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

The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers.

Sustainability and environment

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

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets, and operations by 2040.

2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.

3. We will ensure the safety and wellbeing of all our people.

4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.

5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action remains a key focus. Building on our Group wide climate-related risk management process from last year, which considered the following time horizons: short (present to 2030), medium (2030 to 2040), and long-term horizons (2040 to 2100), sectors and regions considered the insight and recommendations from the KPMG climate-related risk assessment report and identified the immediate actions required in their five-year strategic plans to support corporate commitments. These included Net Zero, wider environmental targets, and to address key climate-related risks and opportunities.

These activities form part of the Group-wide ESG Strategy as described on pages 62 to 88 of the annual report of Babcock International Group PLC, which does not form part of this report.

This report was approved by the board on 20th December 2024 and signed on its behalf:

Paul Watson
Director
20th December 2024

Directors report for the year ended 31 March 2024

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2024.

Dividends
A dividend of £Nil was declared and paid in the year (2023: £Nil). No final dividend for the year ended 31 March 2024 is proposed by the directors (2023: £nil).

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

S Doherty	resigned 30th September 2024
W R Watson	resigned 30th September 2024
P J Craig	appointed 7th December 2023
Avinash Misra	appointed 18th December 2024
Paul Watson	appointed 18th December 2024
Gareth John Hedicker	appointed 18th December 2024
D M Jones	resigned 12th October 2023
A Coyle	resigned 29th March 2024
J A Donaldson	resigned 29th July 2024

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

Future developments

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

We have continued to make good operational progress on the Type 31 programme, with the superstructure of HMS Venturer almost complete. Work on the second ship, HMS Active, is progressing, and Steel Cut for the third ship, HMS Formidable, will take place in October 2024

However, overall estimated programme costs have increased in FY24 due to the maturing of the design and an increase in the forecast cost of labour in Rosyth, which is expected to be higher than CPI, the indexation within the Type 31 contract. These cost increases have caused the total contract outturn to deteriorate by £90 million over the life of the programme.

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

The contract for provision of support to the build of the UK Dreadnought and US Columbia class will continue to deliver against existing contracts and, as a key strategic supplier into this programme, is well positioned for further opportunities.

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

Directors report for the year ended 31 March 2024 *(continued)*

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £684m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity, and cash flows are discussed in detail within the annual report of Babcock International Group PLC, which does not form part of this report.

Employment of disabled persons

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

Employee involvement

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

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

Research and development

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

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2024 of its ultimate parent, Babcock International Group PLC.

Engagement with suppliers and customers

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

Directors report for the year ended 31 March 2024 *(continued)*

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

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 12 to 17 and 81 to 84 of the annual report for Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 8 to 9 of the Strategic Report.

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

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

Post balance sheet events
There have been no material changes in the post balance sheet period.

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

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

Appointment of auditors
Deloitte LLP are not seeking reappointment as auditors of the Company and a resolution appointing Forvis Mazars LLP as their replacement has been proposed and approved by the Annual General Meeting.

This report was approved by the board on 20th December 2024 and signed on its behalf.

Paul Watson
Director
20th December 2024

Statement of Directors' responsibilities

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

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

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 27.

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

OTHER INFORMATION

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

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

OTHER INFORMATION (CONTINUED)

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in respect of these matters.

USE OF OUR REPORT

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

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
20th December 2024

Income statement for the year ended 31 March 2024

	Note	2024 £'000	2023 £'000
Revenue	4	**377,661**	304,429
Cost of revenue		**(433,260)**	(404,659)
Gross loss		**(55,599)**	(100,230)
Administration and distribution expenses		**(6,059)**	(6,105)
Operating loss	5	**(61,658)**	(106,335)
Other finance credit – pensions		**(2,180)**	371
Finance income	6	**7,872**	59
Finance costs	6	**(8,060)**	(1,986)
Loss before taxation		**(64,026)**	(107,891)
Income tax expense	10	**(6,518)**	(27,267)
Loss for the financial year		**(70,544)**	(135,158)

The notes on pages 23 - 54 form part of these financial statements.

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2024

	Note	**2024 £'000**	2023 £'000
Loss for the financial year		**(70,544)**	(135,158)
Other comprehensive (expense)/:			
Items that will not be subsequently reclassified to income statement:			
(Loss) on remeasurement of net defined benefit obligation	23	**(20,542)**	(126,895)
Tax on net defined benefit obligation	10	**5,135**	31,724
Total comprehensive (expense) for the year		**(85,951)**	(230,329)

Statement of financial position as at 31 March 2024

	Note	2024 £'000	2023 £'000
Fixed assets			
Intangible assets	11	**127,948**	129,713
Property, plant and equipment	12	**115,886**	112,384
Right-of-use assets	13	**111**	41
Deferred tax assets	10	**18,137**	14,790
Other financial assets	18	**30**	17
Trade and other receivables	15	**219,256**	227,897
		481,368	484,842
Current assets			
Inventories	14	**399**	504
Trade and other receivables	15	**122,553**	119,074
Other financial assets	18	**581**	12
Cash and cash equivalents		**3**	2,099
		123,536	121,689
Creditors: amounts falling due within one year			
Lease liabilities	13	**(8)**	(12)
Trade and other payables	16	**(775,317)**	(707,540)
Provision for liabilities	17	**(27,627)**	(18,405)
Other financial liabilities	18	**(4,108)**	(4,598)
Net current liabilities		**(683,524)**	(608,866)
Total assets less current liabilities		**(202,156)**	(124,024)
Creditors: Amounts falling due after more than one year			
Lease liabilities	13	**(98)**	(26)
Retirement benefit deficits	23	**(61,357)**	(56,502)
Other financial liabilities	18	**(1,297)**	(3,774)
Provision for liabilities	17	**(52,608)**	(47,239)
		(115,360)	(107,541)
Net liability		**(317,516)**	(231,565)
Equity			
Called up share capital	19	**250**	250
Share premium account		**150,322**	150,322
Accumulated losses		**(468,088)**	(382,137)
Total shareholders' deficit		**(317,516)**	(231,565)

The notes on pages 23-54 are an integral part of these financial statements. The financial statements on pages 19-54 were approved by the board of Directors on 20th December 2024 and signed on its behalf by:

Paul Watson
Director

Registered Number SC101959

20th December 2024

Statement of changes in equity as at 31 March 2024

	Note	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total shareholders' deficit £'000
Balance at 1 April 2022		**250**	**150,322**	**(151,808)**	**(1,236)**
Loss for the year		-	-	(135,158)	(135,158)
Other comprehensive loss		-	-	(95,171)	(95,171)
Total comprehensive expense		-	-	(230,329)	(230,329)
Balance at 31 March 2023		**250**	**150,322**	**(382,137)**	**(231,565)**
Loss for the year		-	-	(70,544)	(70,544)
Other comprehensive loss		-	-	(15,407)	(15,407)
Total comprehensive expense		-	-	(85,951)	(85,951)
Balance at 31 March 2024		**250**	**150,322**	**(468,088)**	**(317,516)**

Notes to the financial statements

1 General information

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

The ultimate controlling party is disclosed in note 27. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of material accounting policies

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

Basis of preparation

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. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

The Company is a wholly owned subsidiary of Babcock Marine (Rosyth) Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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 meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Where relevant, equivalent disclosures have been given in the group accounts of Babcock International Group PLC. In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions have been taken:

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payments'.
b) Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations'.
c) Paragraph 33(c) of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
d) IFRS 7, 'Financial instruments: Disclosures'.
e) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
f) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
g) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

h) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
- paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
- paragraph 73(e) of IAS 16 Property, plant and equipment; and
- paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).

i) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
j) IAS 7, 'Statement of cash flows'
k) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
l) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation.

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

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

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

The financial statements have been prepared 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.

Adoption of new and revised standards

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the consolidated financial statements:

- IFRS 17, '*Insurance Contracts'*: IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IAS 1, *'Presentation of Financial Statements'*: The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies.
- Amendments to IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors'*: The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates.
- Amendments to IAS 12, '*Income Taxes'*: The amendments introduce a further exception from the initial recognition exemption.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Company:

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IAS 1: Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

All standards listed above will be adopted with effect from 1 April 2024 with the exception of the Amendments to IFRS 10 and IAS 28 for which the mandatory effective date has not yet been set by the IASB.

2 Summary of material accounting policies *(continued)*

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £684m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

Revenue

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

(a) Performance obligations

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

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

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

(b) Determination of contract price

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

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

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(b) Determination of contract price (continued)
Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of
negotiations with customers and historical experience with customers and with similar contracts.

Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

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

(d) Revenue and profit recognition
Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time.

Revenue recognised over time
Performance obligations are satisfied over time if any of the following criteria are satisfied:

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

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

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

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the amount of revenue recognised by the Company (as measured by the methods described above) exceed the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (h) for further details on how contract assets and liabilities are recognised.

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

Revenue recognised at a point in time
If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Company.

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

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

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

(e) Contract modifications

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

Accounting for contract modifications *(continued)*

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

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

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

(f) Costs of obtaining a contract
Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

(g) Costs to fulfil a contract
Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

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

Costs of recruiting or training staff are expensed as incurred.

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

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

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

2 Summary of material accounting policies *(continued)*

Intangible assets *(continued)*

a) Goodwill

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

The company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead, an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

b) Intellectual property

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

c) Research and development

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

d) Computer software

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

Property, plant and equipment

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

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

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

2 Summary of material accounting policies *(continued)*

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

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

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

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

Leases
The Company as lessee
For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognises a right of use asset and corresponding lease liability at commencement of the lease.
The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Leases *(continued)*

The Company as lessor

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

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

Inventory

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

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

Provisions

A provision is recognised in the statement of financial position 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 can be 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. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 25 for details of contingent liabilities.

Taxation

a) Current income tax

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material 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 substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

Trade and other receivables (including amounts due from group undertakings) are also stated at their cost less expected credit losses. A provision for expected credit losses is established under IFRS 9 when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

Current intercompany trade receivables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due from group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans receivable at the balance sheet date that are settled within twelve months are recorded as current assets.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Employee benefits

a) Pension obligations

Defined benefit schemes

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

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the Company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

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

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

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

Defined contribution schemes

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

b) Share-based compensation

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

c) Holiday pay

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

Finance costs

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

Finance income

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

Trade and other payables

Trade and other payables are stated at actual cost, or estimated cost in respect of accruals.

Current intercompany trade payables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due to group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans payable at the balance sheet date that are settled within twelve months are recorded as current liabilities.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Financial instruments

a) Financial assets and liabilities at amortised cost

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

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

b) Derivative financial instruments

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

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

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

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.
The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

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

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

Dividends

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

Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

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

Critical accounting judgements

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

Revenue and profit recognition

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

Additional work expected under the Type 31 contract

There is judgement in determining whether the Type 31 onerous contract provision should reflect the benefit of the expected continuation of the programme. IAS 37.10 states that "a contract is onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it." Judgement is required in determining whether additional work is treated as a benefit expected to be received under the Type 31 contract, reducing the onerous contract provision. The key factors considered in making this judgement are the additional work expected at contract inception and the economic linkage with the pricing and other terms of the Type 31 contract. Having carefully considered the available evidence against the evidential bar required to recognise future benefits, it was concluded that the expected continuation of the programme should not be treated as a benefit expected under the Type 31 contract.

Key sources of estimation uncertainty

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

Revenue and profit recognition

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. The most significant estimate of contract outturn relates to the Type 31 programme as outlined below.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Revenue and profit recognition *(continued)*
The contract to produce 5 Type 31 frigates was won under competitive tender in 2019, based on Babcock's Arrowhead 140 design. The contract is important in providing access to an expected pipeline of Type 31 work and developing our Arrowhead 140 design for opportunities overseas. Although the contract contained certain escalation clauses, it provided limited protection from the macroeconomic changes of recent years relating to Brexit, Covid, raw material prices and UK labour shortages, which have significantly increased our costs. Following the outcome of discussions with the customer over these matters, a £100m charge was recorded in the prior financial year.

This year we launched an operational improvement programme to address all areas of the Type 31 programme. This has included a significant focus on cost drivers and financial modelling, supported by external consultants, and has led to a number of management changes. This has enabled a more detailed reassessment, robustly supported by actual cost data, other empirical evidence and a further year of experience of the programme.

We recorded a £90m charge at the end of the year. Estimated costs over the life of the contract have increased due to the maturing of the design and an increase in the forecast cost of labour. The £90m charge has been recognised as a £66m reduction in revenue (which increases the contract liability within working capital) and £24m increase in the onerous contract provision.

Determining the contract outturn, and therefore revenue and onerous contract provision recognised, requires assumptions and complex judgements to be made about the future performance of the contract. The level of uncertainty in the estimates made in assessing the outturn is linked to the complexity of the underlying contract.The estimates in assessing the outturn are set out below, along with the related estimation methods, data sources and management actions to offset the increases in the year.

a) The number of production hours – which requires estimation of a standard level of hours for manufacturing, structural and outfitting activities, determined with reference to previous experience of comparable programmes and industry data where available. The estimation of the time taken to improve to this standard level is also relevant, based on a detailed enablement plan which is a key output of the operational improvement programme. The volume of activities is based on a detailed assessment of the Bill of Materials, supported by dedicated engineering software.
b) The cost of labour – which is dependent on our ability to recruit, the mix of the workforce between permanent and contingent workers from the UK and overseas, the utilisation of semi-skilled and apprentice workers and shift patterns and premiums. A detailed resourcing plan is used to support this estimate with actions required to achieve an efficient labour mix.
c) The cost of bought-in parts and services through suppliers and sub-contractors – which includes the outcome of procurement tenders, finalisation of other areas of unagreed pricing and the agreement of discounts and incentive arrangements.
d) The ability to improve operational performance through process efficiencies, quality, and engineering improvements over the five ships –which requires actions to reduce re-work, optimise the location in which outfitting is performed, deliver specific productivity initiatives and make engineering changes to reduce the cost of manufacture, structural assembly and outfitting.
e) The number of hours required by support functions - primarily in engineering which is impacted by the timely completion of remaining design activities and effective management of production support and change requests. A detailed engineering scope review has been performed to support this estimate. The maturity of the design and estimation process has allowed us to target improvements in ongoing support and overhead costs.
f) The determination of non-incremental costs which relate directly to fulfilling the contract and are therefore partially allocated to the contract to determine the loss provision – including facility and overhead costs
g) The impact of inflation on the contract price and costs to fulfil the contract – particularly in relation to labour which may be impacted by changes in the local, UK and overseas labour markets, competitor activity and government policy

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Revenue and profit recognition *(continued)*

h) The achievement of the build schedule to completion and final acceptance – including the satisfaction of all contractual performance criteria. The schedule analysis is based on detailed modelling and the performance of multiple scenario analysis.

The cost estimation process has involved a number of key elements:

- Regular governance at the Group level to monitor progress and enable support as required.
- Bottom-up costing at the activity level performed by individual business areas.
- Reassessment of risk based on the updated cost estimates, considering ranges of outcomes and probabilities.
- Input from functional specialists from across the Group.
- Development of financial models based on cost drivers, using actual data and other evidence to inform the forecast outturn.
- Detailed documentation of estimates made, including process followed, sources of evidence and basis for conclusions.
- Review and challenge at the Programme, Sector and Groups levels, culminating in a number of dedicated reviews with the Audit Committee

The range of possible future outcomes in respect of assumptions made to determine the contract outturn could result in a material increase or decrease in revenue and the value of the onerous contract provision, and hence on the Group's profitability, in the next financial year. The estimates described above are by their nature inter-related for this programme and are unlikely to change with everything else constant. However, for illustrative purposes, we have provided sensitivities to certain isolated changes in key estimates on the basis that all other factors remain constant:

- Production hours - which are impacted by production norms, rate of improvement, process efficiencies and quality/engineering improvements (see a) and d) above). A 10% increase/decrease in production hours would increase/decrease the loss by £32m.
- Labour rate - which is impacted by our ability to recruit permanent staff, the mix of the workforce, ancillary costs and inflation (see b) and g) above). A 10% increase/decrease in the average labour rate would increase/decrease the loss by £45m.
- Supply chain costs - (see c) above) - which are impacted by the agreement of remaining pricing, discounts and incentive arrangements. A 10% increase/decrease in supply chain costs would increase/decrease the loss by £31 million.
- Non-production costs - (see e), f) and h) above)- which are impacted by the build schedule. A 6-month delay beyond the current planning assumption would increase/decrease the loss by £24 million.

Overall, with c£1bn of estimated costs to go over the life of the contract, if actual costs were to differ from those assumed by 10%, the potential impact on the contract outturn could be c.£100 million. To mitigate this, comparisons of actual contract performance and previous forecasts used to assess the contract outturn are performed regularly, with consideration given to whether any revisions to assumptions are required. In the next financial year, many of the 'first time' tasks and work to integrate the various elements of the first ship will be substantially complete. This will reduce the uncertainty over the contract outturn but a significant element will remain due to the substantial activity which extends over the remaining years. In a major ship build programme of this nature, it is inherently possible that there may be changes in circumstances which cannot reasonably be foreseen at the present time.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Defined benefit pension schemes obligations

The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 23.

Inflation

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

Calculation of Expected Credit Loss

IFRS 9 requires lifetime expected credit losses to be recognised when there are significant increases in credit risk since initial recognition. Expected credit losses are estimated and updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk. The Company measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, which is estimated based on reference to past experience and relevant forward-looking factors. For all other assets the loss allowance is measured using 12-months expected credit losses unless there was a significant increase in credit risk since initial recognition. Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

4 Revenue

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

	2024 £'000 Naval Support	**2024 £'000 Submarine dismantling**	**2024 £'000 Property leasing**	**2024 £'000 Vessel Build**	**2024 £'000 Marine Design & commercial**	**2024 £'000 Total**
By area of activity:						
Sale of goods – over time	**37,319**	**43,154**	**-**	**185,517**	**110,716**	**376,706**
Rental income	**-**	**-**	**955**	**-**	**-**	**955**
	37,319	**43,154**	**955**	**185,517**	**110,716**	**377,661**

	2023 £'000 Naval Support	2023 £'000 Submarine dismantling	2023 £'000 Property leasing	2023 £'000 Vessel Build	2023 £'000 Marine Design & commercial	2023 £'000 Total
By area of activity:						
Sale of goods – over time	32,791	35,541	-	170,504	64,864	303,700
Rental income	-	-	729	-	-	729
	32,791	35,541	729	170,504	64,864	304,429

All the revenue in the year ended 31 March 2024 originated in the United Kingdom.

Notes to the financial statements *(continued)*

5 Operating loss

Operating loss is stated after charging:

	2024 £'000	2023 £'000
Depreciation of property, plant and equipment (Note 12)	**8,100**	7,604
Right of use depreciation (Note 13)	**18**	10
Amortisation of intangible assets (Note 11)	**1,765**	765
Operating lease charges – short term leases (Note 13)	**37**	43
Operating leases charges – low value leases (Note 13)	**60**	75
Audit fees payable to the Company's auditor	**268**	268

The auditors' remuneration for the current £268,000 and prior year £268,000 has been borne by a fellow Group company and recharged to the Company. Fees paid to the company's auditors, Deloitte LLP and its associates, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

6 Finance income and costs

	2024 £'000	2023 £'000
Finance income:		
Bank interest income	**2,929**	49
Fair value movement on derivatives	**3,552**	-
FX movement on Intercompany Loans	**1,381**	
Loan interest receivable from group undertakings	**10**	10
	7,872	59

	2024 £'000	2023 £'000
Finance costs:		
Bank borrowings	**(5,660)**	(935)
Interest on contract	**(2,393)**	-
Lease interest	**(7)**	(3)
Fair value movement on derivatives	**-**	(1,048)
	(8,060)	(1,986)

Notes to the financial statements *(continued)*

7 Staff costs

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

	2024 Number	2023 Number
By activity:		
Operations	**1,379**	1,151
Management and administration	**130**	114
	1,509	1,265

Their aggregate remuneration comprised:

	2024 £'000	2023 £'000
Wages and salaries	**75,526**	60,035
Social security costs	**7,780**	6,127
Pension costs – defined contribution plans (note 23)	**4,526**	3,930
Pension costs – defined benefit plans (note 23)	**3,368**	716
Share-based payments (note 9)	**41**	36
	91,241	70,844

8 Directors' emoluments

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

The emoluments of the directors which was paid by the Company was as follows:	**2024 £'000**	2023 £'000
Remuneration (including benefits in-kind)	**1,014**	693
	1,014	693

During the year no (2023: nil) Directors remunerated by Rosyth Royal Dockyard Limited exercised share options under long term incentive plans and two (2023: two) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one Director (2023: one) under defined benefit pension schemes. Except for four (2023: three) 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 include the following in respect of the highest paid Director:

The emoluments of the directors which was paid by the Company was as follows:	**2024 £'000**	2023 £'000
Remuneration (including benefits in-kind)	**338**	335

The highest paid Director did not exercise shares under long term incentive plans (2023: did not exercise shares under long term incentive plans).

The highest paid Director's defined benefit accrued pension and accrued lump sum at 31 March 2024 was £82,246 (2023: £73,043) and £nil (2023: £nil), respectively.

Notes to the financial statements *(continued)*

9 Share-based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Rosyth Royal Dockyard Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts, which does not form part of this report.

During the year the total charge relating to employee share-based payment plans was £0.04 million (2023: £0.04 million) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £0.04 million (2023: £0.04 million).

The fair value per option granted and the assumptions used in the calculation are as follows:
Performance Share Plan (PSP) and Deferred Bonus Plan (DBP)

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2023 PSP	1,259,675	371	32.6%	4.0	100.0%	–	334	–	01/08/23
2023 PSP	1,234,901	371	–	4.0	100.0%	–	371	–	01/08/23
2023 PSP	737,280	371	32.6%	6.0	100.0%	–	334	–	01/08/23
2023 PSP	78,571	413	32.0%	6.0	100.0%	–	372	–	29/09/23
2023 PSP	822,036	413	–	6.0	100.0%	–	413	–	29/09/23
2023 PSP	42,077	385	–	3.0	100.0%	–	385	–	15/12/23
2023 PSP	127,553	385	–	4.0	100.0%	–	385	–	15/12/23
2023 PSP	131,707	385	32.0%	6.0	100.0%	–	347	–	15/12/23
2023 DBP	129,095	371	–	4.0	100.0%	–	371	–	01/08/23
2023 DBP	179,247	371	–	2.0	100.0%	–	371	–	01/08/23
2022 PSP	2,302,009	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 PSP	613,078	351	19.0%	6.0	100.0%	–	316	–	01/08/22
2022 PSP	806,511	351	19.0%	6.0	100.0%	169	316	55.0%	01/08/22
2022 DBP	218,895	351	19.0%	4.0	100.0%	–	351	–	01/08/22
2022 DBP	551,420	351	19.0%	2.0	100.0%	–	351	–	01/08/22
2021 PSP	769,165	372	19.0%	6.0	100.0%	149	316	55.0%	24/08/21
2021 PSP	626,704	380	19.0%	6.0	100.0%	–	325	–	24/09/21
2021 PSP	1,780,849	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2021 DBP	45,312	380	19.0%	4.0	100.0%	–	380	–	24/09/21
2020 PSP	695,458	350	19.0%	6.0	100.0%	–	305	–	01/12/20
2020 PSP	2,091,247	350	19.0%	4.0	100.0%	–	350	–	01/12/20
2020 PSP	1,341,477	350	19.0%	6.0	100.0%	138	305	55.0%	01/12/20
2020 DBP	118,320	289	19.0%	4.0	100.0%	–	289	–	03/08/20
2020 DBP	192,096	284	19.0%	4.0	100.0%	–	284	–	13/08/20

The vesting period and the expected life of PSP awards are three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

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

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

Notes to the financial statements *(continued)*

9 Share-based payments *(continued)*

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

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

For PSP awards made in August to December 2023, 3,611,764 were made via the use of restricted shares with a three-year to five-year vesting period.

There are no performance conditions attached. A further 822,036 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

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 116,711 matching shares (2023: 140,340 matching shares) at a cost of £0.4 million (2023: £0.4 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2023: no matching shares) and 2,192 matching shares vested (2023: 1,055 matching shares) leaving a balance of 3,726 matching shares (2023: 5,918 matching shares).

10 Tax

Income tax expense	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Analysis of tax expense in the year		
Current tax		
• Adjustment in respect of prior periods	**-**	(347)
• Overseas current year expense	**2,637**	1,237
	2,637	890
Deferred tax		
• UK current year expense	**3,769**	20,098
• UK prior year expense/(benefit)	**112**	(68)
• Impact of changes in tax rates	**-**	6,347
Total income tax expense	**6,518**	27,267

Tax benefit to the statement of comprehensive income

	31 March 2024 £'000	31 March 2023 £'000
• Tax on net defined benefit obligation	**(5,136)**	(31,724)
Total tax benefit to other comprehensive income	**(5,136)**	(31,724)

The tax for the year is lower (2023: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

Notes to the financial statements *(continued)*

10 Tax *(continued)*

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Loss before tax	**(64,026)**	(107,891)
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2023: 19%)	**(16,007)**	(20,499)
Effects of:		
Expenses not deductible for tax purposes	**1,087**	300
Group relief surrendered for nil consideration	**18,689**	40,532
Overseas tax	**2,637**	1,002
Adjustments in respect of deferred tax for prior years	**112**	(68)
Adjustment in respect of corporation tax for prior years	**-**	(347)
Impact of change in UK tax rate	**-**	6,347
Total income tax expense	**6,518**	27,267

The effect has been to increase the Company's net deferred tax asset by £3,347,000 (2023: increase of £5,346,000), comprising a charge to Income Statement of £1,789,000 (2023: charge of £26,378,000) and a credit to Other Comprehensive Income of £5,136,000 (2023: credit £31,724,000).

Deferred tax

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

	31 March 2024 £'000	31 March 2023 £'000
Deferred tax asset	**18,137**	14,790
	18,137	14,790

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

	Tangible assets £'000	**Retirement benefit obligations £'000**	**Other £'000**	**RDEC £'000**	**Total £'000**
At 1 April 2023	312	14,125	353	-	14,790
Tax (debit)/credit to income statement	170	(3,922)	(129)	2,092	(1,789)
Tax credit to other comprehensive income/equity	-	5,136	-	-	5,136
At 31 March 2024	**482**	**15,339**	**224**	**2,092**	**18,137**

The UK was in a net tax loss position for each of the years ended 31 March 2021, 31 March 2022, 31 March 2023 and 31 March 2024. The losses for the years ended 31 March 2021 and 2022 reflected the contract profitability and balance sheet review carried out in 2021 and the restructuring of the business in 2022. The tax losses in the years ended 31 March 2023 and 31 March 2024 were principally attributable to the provision in respect of the Type 31 contract, together with timing differences between the reporting and taxable result. The Directors do not consider that the results for these periods are representative of future trading performance and are satisfied that these net deferred tax assets are recoverable based on future profit forecasts. As described on page 206 of the annual report of Babcock International Group PLC, which does not form part of this report.

Notes to the financial statements *(continued)*

11 Intangible assets

	Intellectual Property £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2023	21,605	115,653	137,258
At 31 March 2024	**21,605**	**115,653**	**137,258**
Accumulated amortisation and impairment			
At 1 April 2023	(7,545)	-	(7,545)
Amortisation	(1,765)	-	(1,765)
At 31 March 2024	**(9,310)**	**-**	**(9,310)**
Net book value			
At 31 March 2024	**12,295**	**115,653**	**127,948**
At 31 March 2023	14,060	115,653	129,713

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

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

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

12 Property, plant and equipment

	Freehold property £'000	Investment property £'000	Plant and equipment £'000	Specialised Marine Facilities £'000	Assets under construction £'000	Total £'000
Cost						
At 1 April 2023	66,326	1,483	64,867	50,597	2,237	185,510
Additions	1,311	-	3,760	-	6,531	11,602
Reclassification	34	-	808	-	(842)	-
At 31 March 2024	**67,671**	**1,483**	**69,435**	**50,597**	**7,926**	**197,112**
Accumulated depreciation						
At 1 April 2023	(14,246)	(1,483)	(26,394)	(31,003)	-	(73,126)
Charge for the year	(1,708)	-	(3,291)	(3,101)	-	(8,100)
At 31 March 2024	**(15,954)**	**(1,483)**	**(29,685)**	**(34,104)**	**-**	**(81,226)**
Net book value						
At 31 March 2024	**51,717**	**-**	**39,750**	**16,493**	**7,926**	**115,886**
At 31 March 2023	52,080	-	38,473	19,594	2,237	112,384

12 Property, plant and equipment *(continued)*

Investment property comprises a number of buildings (or parts thereof) and areas of land on the Rosyth site. Such property has been accounted for using the cost model. The fair value at year-end of properties that can practicably be measured is £1,440,000 (2023: £1,440,000), their net book value under the cost model is nil (2023: £nil). The valuation was carried out by independent, appropriately qualified valuers. The remainder of the investment property comprises temporarily surplus production and office facilities upon which it is not practicable to place a fair value as they are part owner-occupied and/or integrated with key facilities on the Rosyth site.

Capital commitments

Capital expenditure contracted for but not provided for in full in the financial statements is £4,637,000 (2023: £6,175,000).

13 Leases

Right-of-use assets

The Company leases property under non-cancellable lease arrangements.

	Property £'000	Total £'000
Cost		
At 1 April 2023	82	82
Additions	88	88
At 31 March 2024	**170**	**170**
Accumulated depreciation		
At 1 April 2023	(41)	(41)
Charge for the year	(18)	(18)
At 31 March 2024	**(59)**	**(59)**
Net book value		
At 31 March 2024	**111**	**111**
At 31 March 2023	41	41

Lease liabilities

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

	2024 £'000	2023 £'000
At 31 March	**38**	51
Additions	**88**	-
Interest charged	**7**	2
Payments	**(27)**	(15)
At 31 March	**106**	38

Discounted future minimum lease payments are as follows:

	2024 £'000	2023 £'000
Within one year	**8**	12
In more than one year, but not more than five years	**39**	10
After five years	**59**	16
Carrying value of liability	**106**	38

13 Leases *(continued)*

Lease liabilities *(continued)*
The Company had total cash outflows for leases of £27,000 for the year ended 31 March 2024 (2023: £15,000).

The following are the amounts recognised in profit or loss:

	2024 £'000	2023 £'000
Expense relating to short-term leases	**37**	43
Expense relating to leases of low-value assets	**60**	75
	97	118

The Company as a lessor

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

Amounts recognised in the income statement:

	2024 £'000	2023 £'000
Operating lease – rental income	**339**	324

Operating lease payments receivable

	2024 £'000	2023 £'000
Within one year	**324**	311
Greater than one year but less than two years	**200**	131
Greater than two years but less than three years	**36**	30
Greater than three years but less than four years	**36**	18
Greater than four years but less than five years	**36**	-
Total undiscounted operating lease payments receivable	**632**	490

There was no material impairment of lease receivables in the year ended March 2024 (March 2023: £nil).

14 Inventories

	2024 £'000	2023 £'000
Raw materials	**399**	504
	399	504

Inventories are stated after provisions for impairment of £229,000 (2023: £249,000).

Notes to the financial statements *(continued)*

15 Trade and other receivables

	2024 £'000	2023 £'000
Amounts due after more than one year:		
Amounts due from group undertakings	**219,256**	227,897
	219,256	227,897

Amounts due from group undertakings after more than one year are unsecured and repayable on demand with no interest charge. These amounts are not expected to be settled within the next twelve months.

Included in amounts due from group undertakings are:

- A parent loan of £19,500,000 (2023: £19,500,000) repayable on demand, with no interest charge.
- One group loan (2023: three) totalling £96,380,000 (2023: £126,197,000) all repayable on demand, with no interest charge.

	2024 £'000	2023 £'000
Amounts falling due within one year:		
Trade receivables	**8,471**	15,314
Contract assets	**7,477**	4,747
Amounts due from group undertakings	**93,079**	90,058
Other receivables	**2,741**	500
Capitalised contract costs	**201**	985
VAT	**9,331**	6,937
Prepayments	**1,253**	533
	122,553	119,074

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

Trade receivables are stated after provisions for impairment of £Nil (2023: £700,000).

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

	Amounts due for contract work £'000	Prepayments £'000	Capitalised contract costs £'000	Total £'000
At 1 April 2023	4,747	533	985	6,265
Transfers from contract assets recognised at the beginning of the year to receivables	(4,159)	(533)	(784)	(5,476)
Increase due to work done not transferred from contract assets	6,889	1,253	-	8,142
At 31 March 2024	**7,477**	**1,253**	**201**	**8,931**

Notes to the financial statements *(continued)*

16 Trade and other payables

	2024 £'000	2023 £'000
Amounts falling due within one year:		
Trade payables	**30,513**	11,930
Contract liabilities	**225,002**	213,760
Amounts due to parent and group undertakings	**462,554**	434,626
Other taxation and social security	**2,635**	2,634
Contract cost accruals	**26,879**	27,904
Accruals	**27,734**	16,686
	775,317	707,540

Amounts due to Group undertakings comprises the following:

- Four major loans (2023: four) to a group company totalling £198,369,000 (2023: £199,415,000) are repayable on demand, with no interest charge.
- All other amounts due from group undertakings are unsecured and repayable on demand.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 25).

	Contract cost accrual £'000	Advance payments £'000	Total £'000
At 1 April 2023	27,904	213,760	241,664
Revenue recognised that was included in contract liabilities at the beginning of the year	(26,720)	(190,057)	(216,777)
Increase due to cash received, excluding amounts recognised as revenue	25,695	201,299	226,994
At 31 March 2024	**26,879**	**225,002**	**251,881**

17 Provisions for liabilities

The company had the following provisions during the year:

	Contract £'000	Property £'000	Other £'000	Total £'000
At 1 April 2023	**(65,563)**	**-**	**(81)**	**(65,644)**
Charged to the income statement	(36,544)	(1,400)	-	(37,944)
Utilised in the year	23,272	-	81	23,353
At 31 March 2024	**(78,835)**	**(1,400)**	**-**	**(80,235)**

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

	2024 £'000	2023 £'000
Current	**(27,627)**	(18,405)
Non-Current	**(52,608)**	(47,239)
	(80,235)	(65,644)

17 Provisions for liabilities *(continued)*

The contract provision relates to onerous contracts relating to expected future losses on contracts with customers – notably T31 as outlined in note 1. The provision is expected to be utilised by 2030.

Other provision relates to a review of the major programmes in Rosyth Royal Dockyard Limited and relate to expected redundancy costs. These are based on the assessment of future costs and are assessed with reference to past experience. The provisions are expected to be fully utilised between 2 to 5 years.

18 Other financial assets and liabilities

Included in derivative financial instruments at fair value:

	31 March 2024		31 March 2023	
	Assets £'000	**Liabilities £'000**	Assets £'000	Liabilities £'000
Non- Current:				
Forward FX contracts – cash flow hedges	**30**	**(1,297)**	17	(3,774)
	30	**(1,297)**	17	(3,774)
Current:				
Forward FX contracts – cash flow hedges	**581**	**(4,108)**	12	(4,598)
	581	**(4,108)**	12	(4,598)

Forward FX contracts - cash flow hedges of £824,000 from prior year have been reclassified from non-current liabilities to current liabilities during current year.

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.

19 Share capital

	2024 £'000	2023 £'000
Allotted, called up and fully paid	**200**	200
200,072 Ordinary shares of £1 each (2023: 200,072)		
49,998 "A" ordinary shares of £1 each (2023: 49,998)	**50**	50
	250	250

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

20 Dividends

Dividends declared and paid were nil (2023: nil). There are no plans for a final dividend.

21 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2024 the Company had capital commitments of £4,637,000 (2023: £6,175,000) for the purchase of various plant and equipment.

Notes to the financial statements *(continued)*

22 Related party disclosures

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

In the year ended 31 March 2024, the Company had no transactions or balances outstanding with related parties that fall outside the FRS 101 exemption criteria.

23 Pension commitments

Pension costs for defined contribution schemes are as follows:

	31 March 2024	31 March 2023
	£'000	£'000
Defined contribution schemes	5,660	5,076

Statement of financial position liabilities recognised are as follows:

	31 March 2024	31 March 2023
	£'000	£'000
Retirement benefits – funds in deficit	(61,357)	(56,502)

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees. The Company also participates in the following defined benefit schemes: Rosyth Royal Dockyard Pension Scheme" (RRDL).

The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the defined benefit scheme is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

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

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

In the financial year ending March 2021, the Babcock International Group Pension Scheme was closed to future accrual for some employees. These members moved from active to active-deferred members of the scheme, retaining a final salary link.

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

Rosyth Royal Dockyard Pension scheme

The IAS 19 valuation has been updated at 31 March 2024 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 2021. The major assumptions used for the IAS 19 valuation were:

	2024	2023
	%	%
Major assumptions		
Rate of increase in pensionable salaries	-	-
Rate of increase in pensions	3.2	3.32
Discount rate (past service)	4.8	4.8
Deferred revaluation (past service)	3.3	3.3
Total life expectancy for current male pensioners aged 65 (years)	19.3	19.4
Total life expectancy for future male pensioners currently aged 45 (years)	20.3	20.6
Total life expectancy for current female pensioners aged 65 (years)	21.7	21.8
Total life expectancy for future female pensioners currently aged 45 (years)	22.9	23.1

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

	Rosyth Royal Dockyard Pension scheme £m
Deficit contributions	12.4
Additional longevity swap payments	4.3
Expected total employer contributions	16.7

The expected total employer contributions to be made by participating employers to the scheme in 2024/25 are £12.4m (2023/24 £12.4m). The future service rate is nil (2023/24 nil). The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The changes to the Babcock International Group PLC balance sheet at March 2024 and the changes to the Babcock International Group PLC income statement for the year to March 2025 if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2024 £'000	**Projected Income statement 2025 £'000**
Initial assumptions	642,510	4,636
Discount rate assumptions increased by 0.5%	605,891	3,044
Discount rate assumptions decreased by 0.5%	683,047	6,031
Inflation rate assumptions increased by 0.5%	670,365	5,973
Inflation rate assumptions decreased by 0.5%	615,972	3,362
Total life expectancy increased by half a year	654,822	5,227
Total life expectancy decreased by half a year	629,774	4,025

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2024 were:

Fair value of plan of assets	2024 £'000	2023 £'000
Growth assets		
Equities	**52,166**	(396)
Property funds	**39,601**	51,182
High yield bonds/emerging market debt	**-**	-
Absolute return and multi-strategy funds	**566**	4,530
Low-risk assets		
Bonds	**231,749**	193,857
Matching assets	**311,762**	407,832
Collateral	**-**	-
Longevity swaps	**(77,500)**	(78,700)
Fair value of assets	**558,344**	578,305
Present value of defined benefit obligations	**(642,510)**	(655,315)
Total defined benefit obligations	**(642,510)**	(655,315)
Net liabilities recognised in the statement of financial position	**(84,166)**	(77,010)

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

The matching assets for the Rosyth Royal Dockyard Pension Scheme primarily comprise a "Liability Driven Investment" portfolio for each scheme, which invest in gilts, Network Rail bonds, gilt repurchase agreements, interest rate and inflation swaps, asset swaps and cash, on a segregated basis.

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

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

	2024 £'000	2023 £'000
Current service cost	**-**	**-**
Incurred expenses	**1,631**	1,491
Total included within operating profit	**1,631**	1,491
Net interest (receivable)/cost	**2,990**	(509)
Total included within income statement	**4,621**	982

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 (2023: Nil:), £1,189,000 for incurred expenses (2023: £1,087,000), Nil for past service cost (2023: Nil), Nil for curtailment (2023: Nil), and net interest cost of £2,180,000 (2023: (£371,000)).

Notes to the financial statements *(continued)*

23 Pension commitments *(continued)*

Amounts recorded in the Group statement of comprehensive income:

	2024 £'000	2023 £'000
Actual return less interest on pension scheme assets	**(7,114)**	255,444
Experience gains / (losses) arising on scheme liabilities	**33,321**	(404,804)
Changes in assumptions on scheme liabilities	**(4,978)**	15,476
	21,229	(133,884)

The actuarial (loss)/gain recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was (£20,542,000) (2023: (£126,895,100)).

Analysis of movement in the Group statement of financial position:

	2024 £'000	2023 £'000
Fair value of plan assets		
At 1 April	**657,005**	939,966
Interest on assets	**31,369**	26,380
Actuarial (loss) on assets	**(33,321)**	(351,759)
Employer contributions	**18,694**	108,095
Benefits paid	**(37,903)**	(65,677)
At 31 March	**635,844**	657,005

	2024 £'000	2023 £'000
Present value of benefit obligations		
At 1 April	**655,315**	898,505
Service cost	**-**	-
Incurred expenses	**1,631**	1,491
Interest cost	**30,581**	23,395
Experience loss	**7,297**	53,045
Actuarial gain – demographics	**(8,850)**	(14,204)
Actuarial gain – financial	**(5,561)**	(241,240)
Benefits paid	**(37,903)**	(65,677)
Total defined benefit obligations	**642,510**	655,315
Net (deficit)/surplus at 31 March	**(6,666)**	1,690

	2024 £'000	2023 £'000
Change in fair value of reimbursement rights		
Opening fair value of reimbursement rights	**(78,700)**	(91,700)
Interest on reimbursement rights	**(3,778)**	(2,476)
Actuarial gains	**4,978**	15,476
Closing fair value of reimbursement rights	**(77,500)**	(78,700)
Net (deficit)/surplus at 31 March	**(6,666)**	1,690
Net liabilities recognised in the statement of financial position	**(84,166)**	(77,010)

23 Pension commitments *(continued)*

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 £61,357,000 (2023: £56,140,100).

Virgin Media Case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the Company's pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing having taken place in June 2024. The potential impact on the Company is not yet known and continues to be assessed.

24 Subsidiary, and associate and Joint Venture undertakings

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

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

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

25 Contingent liabilities

At the year-end date the Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with overdrawn balances of £8.3m at 31 March 2024 (31 March 2023: utilisation of £21m).

26 Post balance sheet events

There have been no material changes in the post balance sheet period.

27 Immediate and ultimate parent undertakings

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

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

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