

---

**Babcock Marine (Rosyth) Limited**

**Annual report**

**For the year ended 31 March 2020**

**Company registration number:**

**SC333105**

---

---

## **Babcock Marine (Rosyth) Limited**

### **Directors and advisors**

#### **Current Directors**

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

#### **Joint Company secretaries**

J M Wood  
Babcock Corporate Secretaries Limited

#### **Registered office**

Rosyth Business Park  
Rosyth  
Dunfermline  
Fife  
KY11 2YD

#### **Independent auditors**

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

# Babcock Marine (Rosyth) Limited

## Strategic report for the year ended 31 March 2020

The directors present their Strategic report on the Company for the year ended 31 March 2020.

### Principal activities

The principal activities of the Company are the design, construction and repair of ships and the provision of specialised design and manufacturing services for the energy and defence sectors.

### Review of the business

	<b>2020</b>	2019
	<b>£000</b>	£000
Revenue	<b>187,868</b>	195,566
Loss for the financial year	<b>(5,070)</b>	(18,883)
Net Assets	<b>131,682</b>	150,308

Over the course of the year, the Company's underlying core business activities continued to perform in line with expectations, however during the year £1.0m of losses were recognised in relation to a previously completed Offshore Renewable contract where discussions are ongoing with the customer, and where we have subsequently exited from this market. In addition there was an adverse impact of £0.5m in relation to disallowed costs on the QEC programme.

The Company provided the facilities and resources as the final assembly and integration partner for the two new aircraft carriers constructed for the Royal Navy as part of the Aircraft Carrier Alliance (ACA) with BAE Systems, the Ministry of Defence (MoD) and Thales. In addition, the Company maintains and refits the Sandown Class of Mine Countermeasure vessels. The Company has continued to diversify into adjacent markets to exploit its engineering and high integrity manufacturing capabilities.

Outfit and commissioning work on the second vessel, HMS Prince of Wales, was completed in the first half of the year and she left Rosyth in September 2019 for sea trials. Following the successful completion of sea trials she was accepted and commissioned into the Royal Navy at a ceremony presided over by HRH Prince of Wales at the Portsmouth Naval Base in December 2019. This was the culmination of eleven years of activity on the Aircraft Carriers and the contract is currently progressing through formal closure phase.

The Company continues to refit the Sandown class of Mine Countermeasure vessels and provide Engineering Services design activities under the Maritime Support Delivery Framework (MSDF), which continued into its sixth year of operation after a successful first five years achieving all of its contracted outputs and cost saving commitments. The MoD programme which includes all allocated Warship Upkeep, along with elements of Engineering Services design activities, 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 current operative contract of the ToBA framework, the Maritime Delivery Support Framework ("MSDF"), has been modified through an interim agreement by the MoD to include an additional year of operation, allowing sufficient time for its replacement, the Future Maritime Support Programme (FMSP) to be put in place.

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, an example of which is the provision of support to the build of the UK Dreadnought and US Columbia class submarines, where the Company has established a position on a programme which is scheduled to run through to 2036, and secured a further contract during the year with a value of £47m.

**Strategic report for the year ended 31 March 2020 (continued)**

## **Babcock Marine (Rosyth) Limited**

In relation to existing commercial contracts, the Company delivered against key milestones across a range of programmes in support of end customers including Sellafield, Electric Boat, Northlink and US Coastguard, and delivered the first in-service docking of HMS Queen Elizabeth.

### **Principal risks and uncertainties**

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

The key risks and uncertainties affecting the Company are considered to relate to contractual performance, the political and regulatory environment, and exposure to defined benefit pension schemes. The directors manage this risk by meeting on a regular basis to discuss these risks. Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19 is provided on pages 80 to 92 of the annual report of Babcock International Group PLC, which does not form part of this report.

### **Future developments**

On 1<sup>st</sup> April 2020, BMRL sold its trade and assets to RRDL, its wholly owned subsidiary, for a consideration of £118,021,000 being the net book value of the assets, satisfied by the issue of 50 £1 ordinary shares at a premium of £118,020,950 or £2,360,419 per share.

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

The Directors have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the Shareholders as a whole while having regard for all stakeholders. Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 30 and 31 of the annual report of Babcock International group PLC, which does not form part of this report.

## Babcock Marine (Rosyth) Limited

### Strategic report for the year ended 31 March 2020 (continued)

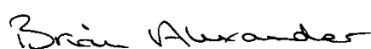
#### Key performance indicators

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

	2020	2019	
Revenue Growth from continuing operations	(3.9)%	(37.2)%	Decrease in turnover for continuing operations when compared to that in the previous year.  <b>The reduction reflects lower levels of activity on the aircraft carrier programme.</b>
Operating Return on Turnover from continuing operations	(1.8)%	(7.5)%	Operating profit expressed as a percentage of turnover.  <b>The improvement reflects the fact that 2019 had a significant impact from Offshore Renewables.</b>
Orderbook £'000	£1,651,602	£280,365	Total value of signed contracts at the end of the year.  <b>The increase reflects an increase in Commercial orderbook including £1,431m secured re the T31E design and build contract with MoD.</b>
Total injuries per 100,000 hours worked	1.07	1.6	The data is for all reported injuries.  <b>Health and safety is a core value for the Company, the accident rate reflects continued good performance.</b>

The growth and performance of Marine, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 68 to 71 of the annual report of Babcock International Group PLC, which does not form part of this report.

On behalf of the board



B R Alexander

**Director**

18 December 2020

Registered number SC333105

Page 4

### **Directors' report for the year ended 31 March 2020**

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2020.

#### **Dividends**

An interim dividend of £nil was declared and paid in the year (2019: £nil). No final dividend for the year ended 31 March 2020 has been provided by the directors (2019: £nil).

#### **Future developments**

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

#### **Financial risk management**

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs. All treasury transactions are carried out only with prime rated counter-parties. Financial Risk is managed in accordance with Group policies and procedures which are discussed on pages 65 to 67 and Note 2 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

##### *Price risk*

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

##### *Credit risk*

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

##### *Liquidity risk*

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

##### *Interest rate cash flow risk*

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a fixed rate, with the exception of interest earned on cash balances which accrue interest at a floating rate. Interest-bearing liabilities accrue interest at a

## **Babcock Marine (Rosyth) Limited**

floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

### **Directors' report for the year ended 31 March 2020 (continued)**

#### **Directors**

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

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

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

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

#### **Employee involvement**

The company communicates regularly with its employees via briefings and discussions, as well as written communications such as daily bulletins, Toolbox Talks and intranet articles on specific topics. The Marine sector produces a bi-monthly employee magazine, The Source, which includes key employee engagement activities. There are also a number of screens across the site displaying important communications, ensuring that all employees have access to the same information as the office-based teams. This is complemented by an employee portal, which can be accessed by all employees, as well as a new SMS text messaging service, which is used to communicate short messages. The company routinely discusses any issues affecting its employees with representatives from the Trade Unions. Employees can join the Babcock All Employee Share Option Plan (AESOP).

#### **Safety policy**

Health and safety performance across the Rosyth site has shown an improvement from 2018/19. The Company recognises the promotion of a positive health and safety culture as an important objective. The last financial year saw the Company putting in place a targeted safety improvement plan in line with the other Marine sites. It is company policy to ensure, as far as reasonably practical, the health, safety and welfare of everyone working for the Company. This commitment has ensured we have maintained our recertification to the OHSAS18001 standard during the 2019/20 financial year.

The strategic focus for the site is to ensure a safe system of work for all those working on site. Employee engagement is recognised as being key in achieving this and has seen the roll out of the Babcock Safety Lens and the continued use of the Company's Visible Leadership Programme. We have also focused on Mental Health as a key initiative with the roll out of Mental Health first aiders throughout the site. The rate of reportable accidents per 100,000 hours of work during the financial year was 0.07 (2019 = 0.14).

### **Directors' report for the year ended 31 March 2020 (continued)**

#### **Environment**

The Company recognises its responsibility to minimise, so far as reasonably practical, the potential for adverse impacts from its operations on the Environment. The Company has developed and implemented a sustainability policy to ensure that the impact of its activities on the environment is limited.

We aim to achieve the highest standards in environmental management and have successfully maintained our recertification to ISO14001. We continually seek to implement further environmental improvements in all areas.

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

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

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

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

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

#### **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.



## **Babcock Marine (Rosyth) Limited**

### **Directors' report for the year ended 31 March 2020** *(continued)*

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

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

#### **Post balance sheet event**

On 1<sup>st</sup> April 2020, BMRL sold its trade and assets to RRDL, its wholly owned subsidiary, for a consideration of £118,021,000 being the net book value of the assets, satisfied by the issue of 50 £1 ordinary shares at a premium of £118,020,950 or £2,360,419 per share.

On behalf of the board



B R Alexander

**Director**

18 December 2020

## **Independent auditors' report to the members of Babcock Marine (Rosyth) Limited**

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

#### **Opinion**

In our opinion, Babcock Marine (Rosyth) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the balance sheet as at 31 March 2020; the income statement, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### **Independence**

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

#### **Conclusions relating to going concern**

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

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

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

#### **Reporting on other information**

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

## **Babcock Marine (Rosyth) Limited**

### **Independent auditors' report to the members of Babcock Marine (Rosyth) Limited** *(continued)*

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

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

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

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

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

#### **Strategic Report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

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

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

As explained more fully in the Statement of directors' responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Babcock Marine (Rosyth) Limited**

### **Independent auditors' report to the members of Babcock Marine (Rosyth) Limited** *(continued)*

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

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

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

#### **Use of this report**

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

#### **Other required reporting**

##### **Companies Act 2006 exception reporting**

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

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

We have no exceptions to report arising from this responsibility



Kenneth Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Glasgow  
18 December 2020

## Babcock Marine (Rosyth) Limited

### Income statement

for the year ended 31 March 2020

	Note	2020 £'000	2019 £'000
<b>Revenue</b>	4	<b>187,868</b>	195,566
Cost of sales		<b>(184,818)</b>	(205,484)
<b>Gross profit/(loss)</b>		<b>3,050</b>	(9,918)
Administrative expenses		<b>(4,136)</b>	(5,132)
<b>Operating loss</b>	6	<b>(1,086)</b>	(15,050)
<b>Loss before interest and taxation</b>		<b>(1,086)</b>	(15,050)
Finance income	5	<b>37</b>	69
Finance costs	5	<b>(83)</b>	(459)
<b>Loss before income tax</b>		<b>(1,132)</b>	(15,440)
Income tax expense	9	<b>(3,938)</b>	(3,443)
<b>Loss for the financial year</b>		<b>(5,070)</b>	(18,883)

All of the above results derive from continuing operations.

### Statement of comprehensive Income

for the year ended 31 March 2020

	Note	2020 £000	2019 £000
<b>Loss for the financial year</b>		<b>(5,070)</b>	(18,883)
<b>Other comprehensive expenditure</b>			
<i>Items that may be subsequently reclassified to income statement:</i>			
Fair value adjustment of foreign exchange hedges		<b>(9,832)</b>	(3,961)
<i>Items that will not be subsequently reclassified to income statement:</i>			
Deferred tax asset related to defined benefit pension schemes	19	<b>(3,724)</b>	3,844
<b>Total Comprehensive expenditure for the financial year</b>		<b>(18,626)</b>	(19,000)

## Babcock Marine (Rosyth) Limited


### Balance sheet

as at 31 March 2020

	Note	2020 £000	2019 £000
<b>Fixed assets</b>			
Intangible assets	10	115,653	115,653
Tangible assets	11	2,031	2,622
Investments	12	27,747	27,747
Right Use of Assets	20	-	-
		<b>145,431</b>	<b>146,022</b>
<b>Current assets</b>			
Inventories	13	337	318
Trade and other receivables	14	157,782	151,856
Other financial assets	18	1,860	318
Cash and cash equivalents		58,642	6,291
		<b>218,621</b>	<b>158,783</b>
<b>Current liabilities</b>			
Bank loans and overdrafts	15	(585)	(27,015)
Trade and other payables	16	(219,607)	(124,857)
Other financial liabilities	18	(12,178)	(708)
		<b>(232,370)</b>	<b>(152,580)</b>
<b>Net current (liabilities)/assets</b>		<b>(13,749)</b>	<b>6,203</b>
<b>Total assets less current liabilities</b>		<b>131,682</b>	<b>152,225</b>
Provision for liabilities	17	-	(1,917)
<b>Net assets</b>		<b>131,682</b>	<b>150,308</b>
<b>Equity</b>			
Called up share capital	22	101	101
Share premium account		139,900	139,900
Other reserves		(10,292)	(460)
Retained earnings		1,973	10,767
<b>Total shareholders' funds</b>		<b>131,682</b>	<b>150,308</b>

The notes on pages 15 to 38 are an integral part of these financial statements.

The financial statements on pages 12 to 38 were approved by the board of directors on 18 December 2020 and signed on its behalf by:



B Alexander, Director  
18 December 2020

## Babcock Marine (Rosyth) Limited

### Statement of changes in equity

	Note	Called up share capital £000	Share premium account £000	Other reserves £000	Retained earnings £000	Total Shareholders' Funds £000
<b>Balance at 1 April 2018</b>		101	139,900	3,501	25,806	169,308
Loss for the financial year		-	-	-	(18,883)	(18,883)
Total other comprehensive expense		-	-	(3,961)	3,844	(117)
Dividends paid	23	-	-	-	-	-
<b>Balance at 31 March 2019</b>		<b>101</b>	<b>139,900</b>	<b>(460)</b>	<b>10,767</b>	<b>150,308</b>
Loss for the financial year		-	-	-	(5,070)	(5,070)
Total other comprehensive expense		-	-	(9,832)	(3,724)	(13,556)
Dividends paid	23	-	-	-	-	-
<b>Balance at 31 March 2020</b>		<b>101</b>	<b>139,900</b>	<b>(10,292)</b>	<b>1,973</b>	<b>131,682</b>

*for the year ended 31 March 2020*

# Babcock Marine (Rosyth) Limited

## Notes to the financial statements

### 1 General information

Babcock Marine (Rosyth) Limited is a private company limited by shares which is incorporated and domiciled in England, UK. The address of the registered Office is Rosyth Business Park, Rosyth, Dunfermline, Fife KY11 2YD.

### 2 Summary of significant accounting policies

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

#### Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101).

These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit and loss in accordance with the Companies Act 2006. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

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

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

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
  - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
  - paragraph 73(e) of IAS 16 Property, plant and equipment; and
  - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The 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.
- f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.



## **Babcock Marine (Rosyth) Limited**

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

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

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

- g) The following paragraphs of IAS 1, 'Presentation of financial statements':
  - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- h) IAS 7, 'Statement of cash flows'
- i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

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

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

The Company applied for the first time certain standards and amendments which are effective for annual periods beginning on or after 1 January 2019. The Company has not early adopted any other standard, interpretation or amendment that has been issued if it is not yet effective.

IFRS 16, 'Leases' has been adopted in the year (effective 1 January 2019) and replaces IAS 17 as the definitive accounting standard for the recognition, measurement and disclosure of leases. The Company has adopted the standard from 1 April 2019.

Under the new standard, the Company has now recognised almost all leases, where the Company is a lessee, on the balance sheet as the distinction between finance leases and operating leases has been removed. Both short-term leases and low-value leases are exempt from IFRS 16, and instead their lease payments continue to be recognised as expenses on a straight-line basis. The approach for lessors has remained largely unchanged.

The Company has adopted the simplified transition approach, with the right-of-use assets measured at the amount of the lease liability on the date of transition for leases. The lease liability was calculated as the present value of the minimum lease payments on the date of transition. Comparative figures have not been restated for the year ended 31 March 2019.

The following practical expedients have been adopted on transition:

- Single discount rates have been applied to portfolios of leases with similar characteristics
- IFRS 16 has only been applied to contracts that were previously classified as leases.

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

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

**Adoption of new and revised standards (continued)**

Right-of-use asset are held at cost less accumulated depreciation and impairment. Any impairments are determined in line with IAS 36, "Impairment of Assets". Depreciation is charged on a straight-line basis over the full length of the lease.

Lease liabilities decrease over time by the net of lease payments made and the interest accrued. Interest is charged to the income statement as the effect of discounting the future lease payments is unwound.

**Revenue**

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as 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 and accounted for as separate performance obligations if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Allocation of contract price to performance obligations

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

(c) Revenue and profit recognition

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

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

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

**Revenue (continued)**

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

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

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

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

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

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

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

# Babcock Marine (Rosyth) Limited

## Notes to the financial statements (continued)

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

#### Revenue (continued)

##### (d) Costs of obtaining a contract

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

##### (e) Contract mobilisation costs

Post-contract award but pre-contract operational start-up mobilisation costs are recognised as an asset and amortised over the life of the contract. These mobilisation costs are included within the contract value and relate to ensuring that assets and resources are mobilised as necessary to support delivery of performance obligations in accordance with contract requirements.

#### Intangible assets

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

##### a) Goodwill

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

Annual impairment reviews are performed as outlined in note 10.

##### b) Acquired intangibles

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

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

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

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

## **Babcock Marine (Rosyth) Limited**

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

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

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

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

#### **Property, plant and equipment**

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

Plant and equipment	6.6% to 33.3%
---------------------	---------------

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

#### **Investments**

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

#### **Inventory and work in progress**

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

#### **Trade receivables**

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

#### **Taxation**

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

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

##### **(b) Deferred income tax**

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for.

# **Babcock Marine (Rosyth) Limited**

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

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

#### **Taxation** *(continued)*

Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

#### **Foreign currencies**

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

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

#### **Lessee Accounting**

For lessees there is no longer a distinction between finance or operating leases as all leases are now recognised on the balance sheet. When a lease commences, a lease liability is recognised that is equal to the present value of the minimum lease payments. A right-of-use asset is also recognised and is equal in value to the lease liability. This represents the right to use the leased asset for the full lease term.

Short-term leases and low-value leases are exempt from recognition on the balance sheet, and the payments are instead recognised on a straight-line basis in the income statement in the same way as they would have been under IAS 17. A lease is considered short-term if the total lease length is less than 12 months, and low-value if the underlying asset would cost less than £5,000 to buy new.

Right-of-use assets are depreciated over the total lease term. As the discounting is unwound, interest is charged in the income statement and increases the lease liabilities. When lease payments are made, the lease liabilities reduce. Therefore both right-of-use assets and lease liabilities have nil value at the end of the lease.

Lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate where the interest rate implicit in the lease is not available.

#### **Provisions for liabilities**

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate. A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

# **Babcock Marine (Rosyth) Limited**

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

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

#### **Provisions for liabilities** *(continued)*

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

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

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

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

#### **Derivative financial instruments**

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

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

For derivatives that qualify as cash flow hedges, gains and losses are deferred in equity until such time as the firm commitment is recognised, at which point any deferred gain or loss is included in the assets' carrying amount. These gains or losses are then realised through the income statement as the asset is sold.

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

### **3 Critical accounting estimates and judgements**

In the course of preparation of the financial statements no judgements have been made in applying the Company's accounting policies, other than those involving estimates, 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 forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates in relation to these financial statements are considered below:

**Notes to the financial statements** *(continued)***3 Critical accounting estimates and judgements** *(continued)***Revenue and profit recognition**

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.



## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 4 Revenue

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

	2020 £000	2020 £000	2020 £000	2020 £000
	Vessel build	Naval Support	Maritime Design and Commercial	Total
By area of activity:				
Rendering of services - transferred over time	-	-	24,056	<b>24,056</b>
Long term contracts - transferred at a point in time	110,322	18,837	34,653	<b>163,812</b>
	<b>110,322</b>	<b>18,837</b>	<b>58,709</b>	<b>187,868</b>
	2019 £000	2019 £000	2019 £000	2019 £000
	QEC aircraft carrier build	Naval Support	Maritime Design and Commercial	Total
By area of activity:				
Rendering of services - transferred over time	-	-	20,888	20,888
Long term contracts - transferred at a point in time	110,049	21,361	43,268	174,678
	110,049	21,361	64,156	195,566

All the revenue in the year ended 31 March 2020 originated in the United Kingdom.

#### 5 Finance income and costs

	2020 £000	2019 £000
<b>Finance income:</b>		
Bank interest	27	59
Capitalised interest on capital expenditure	-	-
Loan interest receivable from group undertakings	10	10
	<b>37</b>	<b>69</b>
<b>Finance costs:</b>		
Bank interest	(83)	(459)
	<b>(83)</b>	<b>(459)</b>

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 6 Operating loss

Operating loss is stated after (charging)/crediting:

	<b>2020</b>	2019
	<b>£000</b>	£000
Depreciation of tangible fixed assets (note 11)	<b>591</b>	595
Impairment of trade receivables	<b>62</b>	47
Decrease/ (Increase) in inventory provisions	<b>493</b>	558
Operating lease charges		
- land and buildings	-	53
Prior year operating leases charges – other	<b>67</b>	58
Foreign exchange (gains)/losses	<b>(52)</b>	197
Audit fees payable to the Company's auditors	<b>75</b>	52

Cost of sales for the year ended 31 March 2020 also includes research and development tax credits of £3,600,000 (2019: £2,400,000).

No other services have been provided by the auditors to the Company in the year (2019:Nil).

#### 7 Staff costs

The company did not employ any personnel directly during the year (2019: none).

The company utilised the services of the employees of a subsidiary undertaking, Rosyth Royal Dockyard Limited, for which it was charged. The average monthly number of persons employed under this arrangement was 1,197 (2019: 1,287). The cost for the financial year relating to this arrangement was £66,272,000 (2019: £68,039,000).

The company also utilised the services of a number of the employees of a related undertaking, Babcock Support Services Limited, for which it was charged. The average monthly number of persons employed under this arrangement was 203 (2019: 272). The cost for the financial year relating to this arrangement was £14,596,000 (2019: £15,907,000).

#### 8 Directors' remuneration

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

	<b>2020</b>	2019
	<b>£000</b>	£000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	<b>148</b>	307
Defined contribution pension scheme	-	-
	<b>148</b>	307

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 8 Directors' remuneration (continued)

During the year no (2019: one) director remunerated by Babcock Marine (Rosyth) Limited exercised share options under long term incentive plans and no (2019: one) director was entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to one director (2019: one) under defined benefit pension schemes.

Retirement benefits are accruing to no directors (2019: nil) under defined contribution pension schemes.

Except for one (2019: two) director, all of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

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

	<b>2020</b>	2019
	<b>£000</b>	£000
Emoluments (excluding pension contributions)	<b>148</b>	118
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	-	-
Defined benefit pension scheme:		
- Accrued pension at the end of the year	-	-
- Accrued lump sum at the end of the year	-	-

The highest paid director did not exercise share options under long term incentive plans (2019: the highest paid director did exercise share options under long term incentive plans)

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 9 Income tax expense

##### Tax expense included in income statement

	<b>2020</b>	2019
	<b>£000</b>	£000
<b>Current tax:</b>		
UK Corporation tax on profits for the year	-	-
Adjustment in respect of prior year	-	-
<b>Current tax charge for the year</b>	<b>-</b>	<b>-</b>
<b>Deferred tax:</b>		
Origination and reversal of timing differences	<b>4,511</b>	2,168
Adjustment in respect of prior years	<b>(458)</b>	1,317
Impact of change in UK tax rate	<b>(115)</b>	(42)
<b>Total deferred tax charge (note 19)</b>	<b>3,938</b>	3,443
<b>Tax on loss on ordinary activities</b>	<b>3,938</b>	3,443

##### Tax expense included in other comprehensive income

Current tax	-	-
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	<b>6,470</b>	(4,089)
- Impact of change in tax rates	<b>(2,746)</b>	245
<b>Tax expense/(credit) included in other comprehensive income</b>	<b>3,724</b>	(3,844)

The tax expense for the year is lower (2019: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2020 of 19% (2019: 19%). The differences are explained below:

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 9 Income tax expense (continued)

	2020 £000	2019 £000
<b>Loss before income tax</b>	<b>(1,132)</b>	<b>(15,440)</b>
(Loss)/profit before income tax multiplied by standard UK corporation tax rate of 19% (2019: 19%)	(215)	(2,934)
Effects of:		
Adjustments in respect of deferred tax for prior years	(458)	1,317
Expenses not deductible/(Income not taxable) for tax purposes	10	8
Group relief surrendered for nil consideration	4,716	5,094
Impact of change in UK tax rate	(115)	(42)
<b>Total tax charge for the year</b>	<b>3,938</b>	<b>3,443</b>

In the UK 2019 Budget it was announced that the UK corporation tax rate would not reduce to 17% but would remain at 19% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 19% as this is the tax rate that will apply on reversal.

#### 10 Intangible assets

	Intellectual Property £000	Goodwill £000	Total £000
<b>Cost</b>			
At 1 April 2019 and 31 March 2020	3,952	115,653	119,605
<b>Accumulated amortisation and impairment</b>			
At 1 April 2019 and 31 March 2020	(3,952)	-	(3,952)
<b>Net book value</b>			
<b>At 31 March 2020</b>	<b>-</b>	<b>115,653</b>	<b>115,653</b>
At 31 March 2019	-	115,653	115,653

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 10 Intangible assets (continued)

The intellectual property rights consist of the right to use the Babcock name.

The goodwill arose on the acquisition of the trade and assets of Babcock's activities at Rosyth Dockyard from Babcock Support Services Limited on 1 December 2007. The carrying value of goodwill is tested for impairment annually by discounting the anticipated future cash flows pertaining to the business in order to establish a value in use. This is tested for sensitivity to the key underlying assumptions. No impairment charge has been applied during the year.

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 those Regulations.

It is not possible to quantify the effect of the departure from the Companies Act, because a finite life for the goodwill has not been identified. However, the effect of amortising over a useful life of 20 years would be a charge of £5,782k (2019: £5,782k) against operating profit and a reduction of £70,837 (2019: £65,055) in the carrying value of goodwill in the balance sheet.

On 1<sup>st</sup> April 2020, BMRL transferred its trade and assets to RRD, its wholly owned subsidiary, for a consideration of £118,021,000 being the net book value of the assets.

#### 11 Tangible assets

	<b>Plant and equipment £000</b>	<b>Total £000</b>
<b>Cost</b>		
At 1 April 2019	9,593	<b>9,593</b>
Additions	0	<b>0</b>
<b>At 31 March 2020</b>	<b>9,593</b>	<b>9,593</b>
<b>Accumulated depreciation</b>		
At 1 April 2019	(6,971)	<b>(6,971)</b>
Charge for the year	(591)	<b>(591)</b>
At 31 March 2020	<b>(7,562)</b>	<b>(7,562)</b>
<b>Net book value</b>		
<b>At 31 March 2020</b>	<b>2,031</b>	<b>2,031</b>
At 31 March 2019	2,622	2,622

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 11 Tangible assets (continued)

On 1<sup>st</sup> April 2020, BMRL transferred its assets to RRDL, its wholly owned subsidiary, for a consideration equal to the net book value.

#### 12 Investments

	<b>2020</b> <b>£000</b>	<b>2019</b> <b>£000</b>
	<b>Shares in group undertakings £000</b>	Shares in group undertakings £000
<b>Cost</b>		
At 1 April 2019 and 31 March 2020	27,747	27,747
<b>Carrying amount at 31 March</b>	<b>27,747</b>	<b>27,747</b>

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

On 1<sup>st</sup> April 2020, BMRL's wholly owned subsidiary issued 50 £1 ordinary shares to it at a premium of £118,020,950 / £2,360,419 per share, being the consideration in respect of the trade and assets transferred to RRDL from BMRL on that date.

#### 13 Inventories

	<b>2020</b> <b>£000</b>	2019 £000
Raw materials	<u>337</u>	<u>318</u>
	<b>337</b>	<b>318</b>
	<b>2020</b> <b>£000</b>	2019 £000
Recognised as an expense in the year	<u>3,354</u>	<u>4,452</u>

On 1st April 2020, BMRL transferred its assets to RRDL, its wholly owned subsidiary, for a consideration equal to the net book value.

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 14 Trade and other receivables

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Trade receivables	2,203	3,517
Amounts due from customers for contract work	25,441	53,520
Amounts owed from group undertakings	30,322	1,493
Capitalised Contract Costs	5,412	-
Amounts owed from group undertakings (loans)	52,694	52,688
Deferred tax asset (note 19)	16,200	23,861
Other receivables	1,807	1,562
Corporation Tax	18,041	14,442
Prepayments and accrued income	5,662	773
	<b>157,782</b>	<b>151,856</b>

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

There are six major loans (2019: six) to group companies:

- A loan of £10,000,000 (2019: £10,000,000) is repayable on demand, the interest rate is 0.1%, payable annually.
- Six loans (2019: six) totalling £42,694,000 (2019: £42,688,000) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £61,683 (2019: £47,000).

	Amounts due for contract work £'000	Accrued Income £'000	Capitalised contract costs £'000	Total £'000
<b>At 1 April 2019</b>	53,520	773	-	<b>54,293</b>
Transfers from contract assets recognised at the beginning of the year to receivables	(52,235)	(773)	-	(53,008)
Increase due to work done not transferred from contract assets	25,696	5,662	-	31,358
Amounts capitalised	-	-	5,412	5,412
Impairment of contract assets	(1,540)	-	-	(1,540)
<b>At 31 March 2020</b>	25,441	5,662	5,412	<b>36,515</b>



## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 15 Bank loans and overdrafts

Bank overdraft balances at the year end are shown below:

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Sterling	-	26,739
Euros	-	276
USD	585	-
	<u>585</u>	<u>27,015</u>

#### 16 Trade and other payables

	2020 £000	2019 £000
<b>Amounts falling due within one year:</b>		
Trade creditors	5,388	16,702
Amounts owed to parent and group undertakings (loans)	120,433	61,667
Taxation and social security	2,436	2,740
Payments received on account	46,232	16,519
Value Added Tax	33	892
Head office accrual	-	306
Accruals and deferred income	45,085	26,031
	<u>219,607</u>	<u>124,857</u>

There are two major loans (2019: two) from group companies of £120,433,000 (2019: £61,667,000) which are repayable on demand, with no interest charge.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 23(a)).

	Contract cost accrual £000	Advance payments £000	Total £000
<b>At 1 April 2019</b>	<u>9,084</u>	<u>16,519</u>	<u>25,603</u>
Revenue recognised that was included in contract liabilities at the beginning of the year	(8,652)	(5,392)	(14,044)
Increase due to cash received, excluding amounts recognised as revenue	37,815	35,105	72,920
<b>At 31 March 2020</b>	<u>38,247</u>	<u>46,232</u>	<u>84,479</u>

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 17 Provisions for liabilities

	Gain Share provision £000	Total £000
<b>Falling due after one year:</b>		
At 1 April 2019	1,917	<b>1,917</b>
Charged to the income statement	-	-
Released in the year	(1,917)	<b>(1,917)</b>
	<hr/>	<hr/>
<b>At 31 March 2020</b>	-	-

The amount provided in respect of gain share provision relates to amounts that may be payable to customers under profit sharing arrangements, released within year.

#### 18 Other financial assets and liabilities

Included in Derivative financial instruments at fair value:

	31 March 2020		31 March 2019	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Forward FX contracts – cash flow hedges	1,860	12,178	318	708
<b>Current portion</b>	<b>1,860</b>	<b>12,178</b>	318	708

The company enters into forward foreign exchange contracts in order to hedge the risk arising from purchase and sale transactions, unrecognised commitments or highly probable forecast transactions denominated in foreign currencies

At the year end there were forty seven (2019: sixty five) contracts in place to sell US Dollars, four (2019: nil) contracts in place to purchase Euros and one (2019: nil) contracts in place to purchase Swedish Krona.

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.

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 19 Deferred taxation

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

<b>Deferred tax asset</b>	<b>Accelerated capital allowances £000</b>	<b>Pension liability £000</b>	<b>Short term timing differences £000</b>	<b>Total £000</b>
At 1 April 2018:	495	21,262	1,703	23,460
- Charged to the income statement	(369)	(1,765)	(1,309)	(3,443)
- Credited to other comprehensive income	-	3,844	-	3,844
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2019:	126	23,341	394	23,861
- Charged to the income statement	(24)	(4,104)	191	(3,937)
- Charged to other comprehensive income	-	(3,724)	-	(3,724)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2020:	102	15,513	585	16,200

#### 20 Right of use assets

	<b>Property £'000</b>	<b>Total £'000</b>
<b>Cost</b>		
At 1 April 2019	-	-
Transition to IFRS 16	20	20
Disposals	(20)	(20)
<b>At 31 March 2020</b>	<hr/>	<hr/>
	-	-
<b>Accumulated depreciation</b>		
At 1 April 2019		
Transition to IFRS 16	-	-
Charge for the year	(20)	(20)
Disposals	20	20
At 31 March 2020	<hr/>	<hr/>
	-	-
<b>Net book value</b>		
<b>At 31 March 2020</b>	<hr/>	<hr/>
	-	-
At 31 March 2019	<hr/>	<hr/>
	0	0

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

#### 21 Lease liabilities

Lease commitments for low value and short term leases outside the scope of IFRS 16, as permitted by the standard, were £34,751 as at 31 March 2020.

In the year lease payments totalling £66,883 were made with respect to short term and low value leases outside the scope of IFRS 16.

The table below explains the difference between the total operating lease commitments recognised under IAS 17 as at 31 March 2019 and the total lease liability recognised on transition to IFRS 16 as at 1 April 2019.

	<b>Total £'000</b>
Operating lease commitments at 31 March 2019	54
Effect of discounting	-
Change in assessment of lease term	(34)
<b>IFRS 16 lease liability at 1 April 2019</b>	<b>20</b>

Lease commitments for long term leases as at 31 March 2020 were £Nil.

#### 22 Called up share capital

	<b>2020 £000</b>	2019 £000
<b>Allotted and fully paid</b>		
101,000 ordinary shares of £1 each (2019: 101,000)	101	101

#### 23 Dividends

An interim dividend of £nil was declared and paid during the year (2019: £nil), this is equivalent to £nil per share (2019: £nil). There are no plans for a final dividend. Dividends declared and received in the year were £nil (2019: £nil), this is equivalent to £nil per share (2019: £nil).

#### 24 Contingent liabilities

At 31 March 2020 the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £307.2 million (2019: £347.1 million) provided to certain Group companies. In addition, the Company at the 31 March 2020 had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2019: £nil million).

## **Babcock Marine (Rosyth) Limited**

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

#### **25 Guarantees and financial commitments**

##### a) Capital Commitments

At 31 March 2020 the Company had capital commitments of £nil (2019: £nil) for the purchase of plant and equipment.

#### **26 Related party disclosures**

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

There were no (2019: none) other transactions during the year or balances at the end of the year (2019: none) with related parties.

#### **27 Post balance sheet event**

On 1<sup>st</sup> April 2020, BMRL's wholly owned subsidiary issued 50 £1 ordinary shares to it at a premium of £118,020,950 / £2,360,419 per share, being the consideration in respect of the trade and assets transferred to RRDL from BMRL on that date.

## Babcock Marine (Rosyth) Limited

### Notes to the financial statements (continued)

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

All related undertakings for the Company are as listed below:

Ownership	Company Name	Country	Interest	Interest %
<b>Direct</b>				
	Rosyth Royal Dockyard Limited <sup>1</sup>	United Kingdom	250,020 Ordinary shares	100.0%
	Babcock Design & Technology Limited <sup>1</sup>	United Kingdom	2 Ordinary shares	100.0%
	Port Babcock Rosyth Limited <sup>1</sup>	United Kingdom	10,000 Ordinary shares	100.0%
	Marine Engineering & Fabrications (Holdings) Limited <sup>2</sup>	United Kingdom	60 Ordinary shares	100.0%
	Babcock Integration LLP <sup>2</sup>	United Kingdom	Member	4.1%
<b>Indirect</b>				
	Rosyth Royal Dockyard Pension Trustees Limited <sup>1</sup>	United Kingdom	-	100.0%
	Marine Engineering & Fabrications Limited <sup>2</sup>	United Kingdom	-	100.0%
	Babcock IP Management (Number One) Limited <sup>2</sup>	United Kingdom	-	4.1%
	Babcock IP Management (Number Two) Limited <sup>2</sup>	United Kingdom	-	4.1%

#### 29 Ultimate parent undertaking

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

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

<sup>2</sup> The registered address is c/o Babcock International Group, 33 Wigmore Street, London W1U 1QX

---

## **Babcock Marine (Rosyth) Limited**

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

#### **29 Ultimate parent undertaking** *(continued)*

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