

Rosyth Royal Dockyard Limited

Annual report and financial statements

for the year ended 31 March 2026

Company registration number: SC101959

COMPANY INFORMATION

Current Directors	P J Craig A Misra P Watson G J Hedicker R A Dingley
Company Secretary	Babcock Corporate Secretaries Limited
Registered Number	SC101959
Registered Office	Babcock International Rosyth Business Park Rosyth Dunfermline Fife KY11 2YD
Independent Auditor	Forvis Mazars LLP Chartered Accountants and Statutory Auditor Three Chamberlain Square Birmingham B3 3AX

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Strategic report for the year ended 31 March 2026

The Directors present their Strategic report on the Company for the year ended 31 March 2026.

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) and cargo handling carried out by the commercial port business.

Business review

	2026	2025
	£'000	£'000
Revenue	299,278	339,144
Loss for the financial year	(133,172)	(26,828)

The Type 31 Inspiration Class five-frigate programme being built for the Royal Navy at our facility in Rosyth has made significant progress. During the year, operational progress continued, including cut steel on the fourth ship in the programme, keel laying of ship three, and both HMS Venturer and HMS Active have left the assembly hall and entered the water (float-off), marking a major execution milestone as of June 2026. The ships have both since returned, as planned, to dry dock to continue fit out. This has created space in our Venturer Hall facility for ship three and ship four, which has continued under an enhanced build and outfitting strategy.

Work on the c. £65million Capability Insertion Period (CIP) contract, awarded in April 2025, commenced within the year. The CIP adds further capabilities that will support the five ships throughout their life and includes the insertion, testing and enhancement of upgrades that will enhance the Type 31's military capability.

We have performed an engineering maturity review, and we have updated our financial estimates to complete the programme, given the elevated levels of rework due to engineering change and productivity. These re-estimates not only cover the production costs of material and personnel, but also an increased programme risk contingency.

This is reflected in a charge on the contract at the year-end of £140.0 million for the revised costs to complete delivery of the Type 31 design and build contract, which is fully recognised in FY26, but the cash costs of which will be incurred over the remainder of the programme. Within the £140.0 million charge, £95.5 million is recognised as a revenue reversal in FY26 (with a corresponding increase in contract liabilities) and the balance increases the contract loss provision.

The 10-year maintenance contract for the Queen Elizabeth Class (QEC) aircraft carriers with the UK Ministry of Defence (MoD) remains ongoing. This covers the three recertification dockings of the (QEC) aircraft carriers, HMS Queen Elizabeth and HMS Prince of Wales, both of which were originally built at Rosyth. The contract also includes the provision of facilities to support emergency dockings. During the year, we successfully completed the planned maintenance and recertification docking of HMS Queen Elizabeth at our Rosyth dockyard, returning the aircraft carrier to the customer on schedule and enabling the timely commencement of sea trials.

In relation to the Submarine Dismantling Project, vessel clearance and dismantling activities are progressing well, with more than 60% of HMS Swiftsure removed and processed by weight. This will be the first UK nuclear submarine to undergo full dismantling using this world-leading approach with the work due to complete by the end of 2026. Preparations for the removal of the intermediate level waste (ILW), specifically the reactor pressure vessel (RPV), are continuing, with ILW removal planned for autumn 2026. The team is also working closely with the MoD to finalise contractual arrangements for the dismantling of the second submarine, with work scheduled to commence in 2027.

Strategic report for the year ended 31 March 2026 (continued)

Business review (continued)

We continue to deliver missile tube assemblies for both the UK Dreadnought and US Columbia-class submarine programmes, supporting the Common Missile Compartment (CMC) programme. We maintain a leading position in the advanced manufacture of missile tube assemblies, reinforced by the award of a contract worth approximately £240 million in 2025. This contract, awarded by General Dynamics Electric Boat, will provide work through to 2030 and covers the production of a further 36 missile tubes. General Dynamics Electric Boat is responsible for the design and construction of the U.S. Navy's Columbia-class submarines, further underlining our strategic role in this critical international defence programme.

We signed a landmark contract in year with our strategic partner Huntington Ingalls Industries (HII), expanding our role in the Virginia-class submarine programme. Building on our existing work producing submarine missile tubes, this agreement authorises us to manufacture complex assemblies for Block VI fast-attack submarines at Rosyth.

In Poland, the long-term contract with PGZ, the Polish Armaments Group, continues to support Poland's Miecznik frigate programme through to the completion of all three vessels. Under the contract, the Company provides engineering services, supply chain support, knowledge transfer and project management through the Programme Management Office. A significant programme milestone was achieved in December 2025 with the official keel-laying ceremony for ORP Burza (Ship 2) in Gdynia.

In relation to existing commercial contracts, the Company delivered against key milestones across a range of programmes in support of end customers including Sellafeld. The Company continues to pursue opportunities that complement its MoD activities, expanding into adjacent maritime design and commercial markets, while also seeking to support additional programmes requiring high-integrity manufacturing capabilities.

The leasing of surplus buildings and land to commercial tenants continues to perform in line with expectations, including the operation of the renewables technology centre in partnership with a tenant. Occupancy levels remain high, with rental income being achieved at prevailing market rates. The port business continues to attract a diverse customer base, with volumes of dry bulk aggregates, recyclable materials, timber and other cargoes performing in line with plan.

The Statement of financial position has deteriorated during the year with overall net liability of £481.8m (2025: £344.7m). This is mainly due to the increase contract liabilities and provision for liabilities on the Type 31 programme discussed on Page 3.

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 2026, 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 Audit Committee and the Risk and Controls 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.

Strategic report for the year ended 31 March 2026 (continued)

Principal risks and uncertainties (continued)

Risk is considered regularly at Group Board level. As part of its business planning and annual strategy review process, the Group Board conducts a robust assessment of principal and emerging risks. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 110 to 128 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The financial and non-financial key performance indicators (KPIs) of Babcock International Group PLC, in the context of the Group as a whole, are provided on pages 32 to 33 of the annual report of Babcock International Group PLC, which does not form part of this report.

We have identified the following financial and non-financial key performance indicators (KPIs) for the Company that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2026	2025	
Revenue Reduction from continuing operations	(11.8) %	(10.2) %	Reduction in revenue is dominated by the £95.5 million revenue reversal of Type 31 discussed on Page 3.
Operating Margin (%)	(55.2) %	(4.0) %	As described above, losses have increased due to the Type 31 revenue reversal.
Order book £'000	796,830	959,476	Order book has reduced in the year due to progress on Type 31.
Total injuries per 100,000 hours worked.	3.51	2.65	Health and safety is a core value for the Company. Injuries have decreased in the year due to a continued focus on health and safety as a core value of the Company.

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 a 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:

- the likely consequences of any decision in the long term,
- the interests of the Company's employees,
- the need to foster the Company's business relationships with suppliers, customers and others,
- the impact of the Company's operations on the community and the environment,
- the desirability of the Company maintaining a reputation for high standards of business conduct, and
- 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 68 to 69 and 138 to 139 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 2026 *(continued)*

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

The Directors confirm that they, both individually and collectively, 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. 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:

The future success of the Company is driven by the long-term relationships with our customers. The Directors 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.

What matters to them:

- Health and Safety
- Operational excellence
- Affordability, Availability, Capability
- Integrated solutions
- Innovation
- 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

Suppliers

Why they matter to us:

Our sustainable growth requires an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive operational improvement through innovation and best practice. These partnerships allow us to ensure continuity of supply, minimise risk and bring integrated solutions to our customers.

What matters to them:

- Collaboration
- Fair treatment and respect
- Transparent communication
- Access to opportunities
- Prompt payment and predictable supplier cash flows

Strategic report for the year ended 31 March 2026 (continued)

S172(1) statement and stakeholder engagement (continued)

Suppliers (continued)

How the Company engages:

In FY26, Babcock launched the UK's first defence industry Small and Medium-Sized Enterprise (SME) Engagement Charter, built on the findings from the Next Line of Defence Report.

- Regular open and honest two-way communications
- Supplier Code of Conduct and Supplier's Guide
- Supplier conferences and workshops
- Supplier due diligence
- Implemented ESG ratings for our suppliers

Regulators

Why they matter to us:

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

Colleagues

Why they matter to us:

Colleague engagement is a primary focus for the Directors of the Company. Our people deserve an environment in which they can thrive – one that requires an unwavering commitment to their health, safety and wellbeing, and a culture where talent is recognised, supported and developed through meaningful action so that everyone can reach their full potential, united by our common Purpose.

Training provided to our apprentices and graduates is a key priority of the Company; developing a strong pipeline of talent will play a crucial role in delivering for our customers.

What matters to them:

- Fair pay and reward
- Opportunities for career development
- Health, safety and wellbeing
- An empowering, inclusive culture with strong leadership
- Collaboration

Strategic report for the year ended 31 March 2026 *(continued)*

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

Colleagues *(continued)*

How the Company engages:

Our Global People Survey remains a key indicator of organisational health and engagement, with a strong participation rate of 79%.

- Regular engagement with leaders at all levels
- Our designated Director for workforce engagement, Lord Parker, visited several Babcock sites, holding 10 meetings and engaging with over 200 colleagues
- 'Go Together, Go Far' immersive bus tour visited several operational sites across the UK
- Improving systems and processes
- Internal communication channels
- Ongoing programme of 'Safety Stand-Down' sessions held across the business
- Held the second year of Babcock's Ignite Awards
- Regular training programmes
- Targeted career development and mentoring initiatives for women

Communities

Why they matter to us:

Babcock is a major employer, often operating in deprived areas. We have the power and responsibility to provide positive benefits to the places where we live and work, not only through employment but also by working with local suppliers, local community groups and charities, through volunteering and STEM outreach. We seek to work in partnerships with the communities we serve so that we can thrive together.

What matters to them:

- Employment opportunities and economic contribution
- Health, safety and wellbeing
- Making a positive impact on the community, including through volunteering
- Engagement in local education and STEM activities
- Sustainability and protection of the local environment
- Support for Indigenous peoples
- Support for the armed forces community
- Broad Community engagement

How the Company engages:

- Regular dialogue at our largest sites on matters of mutual interest
- Sponsorship and donations
- Working with local SMEs to support local economies
- Colleague volunteering
- University and skills partnerships
- STEM outreach
- Employer of service leavers, veterans and reserves
- Engagement with and support for local community programmes
- Engagement with local rail and bus companies to plan sustainable and safe travel to work
- Collaboration with Fife & Edinburgh City Council.

Strategic report for the year ended 31 March 2026 (continued)

S172(1) statement and stakeholder engagement (continued)

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. Since outlining the Group's ESG strategy in 2020 our ambition has grown, but the level and complexity of requirements placed on the business has also increased. Therefore, Babcock International Group PLC, of which this Company is a subsidiary, has undertaken a full review and refresh of our sustainability strategy, to prepare us for the years ahead, and the Company will focus on the following six strategic priorities:

1. Tackling climate change. We have a responsibility to reduce our emissions but must also have a mature understanding of how we will respond to the impacts of climate change.
2. Managing our resources responsibly. We have a responsibility to work with our suppliers and on our own sites to ensure we use resources effectively and efficiently.
3. Protecting the natural environment. Not only is it important to comply with laws and regulations, but where possible we want to enhance the environments we operate in, providing both ecological and social benefits.
4. Ensuring the health safety and wellbeing of our people. Our first duty as a business is to look after our own people. This is not just in relation to matters of safety, but also their physical and mental health. Doing so not only improves the quality of life of our workforce, but it makes us a more productive and successful business.
5. Building an inclusive, diverse and resilient workforce. Inclusion and diversity not only benefit our communities, but it also enables us to build a stronger, more innovative business. We want to nurture and support talent throughout people's careers, regardless of background.
6. Supporting our communities. We will provide positive benefits to the places in which we operate, not only through employment, but also by working with local suppliers, local community groups and charities, through volunteering and STEM outreach.

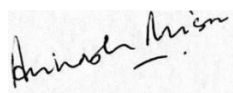
Climate action remains a key focus, building on our Group wide climate-related risk management process. In 2021, we launched our decarbonisation strategy, Plan Zero 40, where we committed to delivery of a 2030 Science Based Target in line with a 1.5-degree pathway, delivering Net Zero across our own operations (Scope 1 and 2) by 2040 and delivering total Net Zero (Scope 1, 2 and 3) by 2050.

As part of our new sustainability strategy, we are reaffirming our commitment to our long-term emission reduction targets which are:

- Reduce absolute Scope 1 and 2 greenhouse gas emissions (GHG) 90% by 2040 from a 2021 base year.
- Reduce Net Zero greenhouse gas emissions across the value chain by 2050. We also remain committed to our short-term target.

Further details in relation to these activities, and climate related financial disclosures, form part of the Group-wide ESG Strategy as described on pages 70 to 105 of the annual report for the year ended 31 March 2026 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

This report was approved by the board on 22nd September 2026 and signed on its behalf by:



A Misra
Director
22nd September 2026

Rosyth Royal Dockyard Limited

Directors report for the year ended 31 March 2026

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2026.

Dividends

An interim dividend of £nil (2025: £nil) representing nil pence (2025: nil pence) per ordinary share was declared and paid in the year. No final dividend for the year ended 31 March 2026 is proposed by the Directors (2025: £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:

P J Craig
A Misra
P Watson
G J Hedicker
R A Dingley (appointed 15th September 2025)

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 remain confident in the Company's future trading prospects, underpinned by a strong order book and a broad range of market opportunities. The current order book provides secured positions across several long-term programmes, which the Company intends to continue supporting. In addition, the Company will seek to leverage its proven engineering expertise and high-integrity manufacturing capabilities, demonstrated through its successful delivery of existing programmes, to expand its presence within the US Submarine Construction market and into adjacent markets within the Clean Energy, Civil Nuclear Decommissioning and Commercial Marine sectors. The Company also plans to pursue further business opportunities arising from the strategic development and utilisation of the Rosyth site.

Rosyth Dockyard has been selected by the Ministry of Defence (MoD) as a contingency docking facility for the Dreadnought-class submarines. This designation will enable Rosyth to support the class should any docking-dependent defect repairs be required during service.

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

Directors report for the year ended 31 March 2026 *(continued)*

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £691m 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 respective other group companies agreeing 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 (UK) Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock (UK) Holdings Limited to provide such finance.

Given the above assessment, the Directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The Directors have not identified 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.

Corporate governance statement

As a subsidiary of Babcock International Group PLC, the Company adheres to the broader governance of the Group and its policies. Babcock International Group PLC is listed on the London Stock Exchange and therefore complies with the UK Corporate Governance code. Directors of the Company apply the principles of the code in order to promote the purpose, values and future success of the Company.

Purpose and Principles

Our Purpose is to create a safe and secure world, together. This is why we exist as a business, and why we do what we do. It defines and underpins our new ways of working, how we create value for our shareholders and how we improve delivery for our customers. It informs the decisions we make and how we treat each other.

The Company has championed the embedding of our Purpose and Principles, ensuring they shape behaviours and leadership standards at all levels. Our Purpose and Principles were developed with the help of our people and are designed to unite us as a Company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock. See more about our approach to Inclusion and Diversity on pages 81-87 of the annual report of Babcock International Group PLC, which does not form part of this report.

Board and Director's responsibilities

The Directors responsibility statement is included on page 14.

Board membership and effectiveness

As required by the UK Corporate Governance Code, every year we conduct our Board evaluation which we view as an excellent opportunity to consider whether there are ways we can improve our effectiveness. The Board ensures that members have an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively.

Maintaining the highest standards of governance is integral to the successful delivery of our strategy. Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board's role is to lead the Company for the long-term sustainable success of Babcock by setting our strategy and supervising the conduct of the Company's activities within a framework of prudent and effective internal controls.

Directors' report for the year ended 31 March 2026 *(continued)*

Corporate governance statement *(continued)*

Risk

The Risk Management Framework exists to manage the risk and opportunities inherent within the Company's strategy. Risk management is at the core of the Group's management practice and an integral part of all our activities, helping us to deliver our commitments to customers, colleagues and communities. FY26 saw further valuable enhancements in the quality of the Company's Risk Registers and heightened understanding of the importance of effective risk mitigation. There has been an enhanced understanding of the benefits of Enterprise Risk Management (ERM) across the Company's senior leadership team. The Group Risk and Controls Committee has continued to develop ERM practice with a healthy level of cross-functional challenge around principal risks and their collective mitigation. The Group's Risk Management Framework considers management of risk in the round, top-down and bottom-up. Risk is considered regularly at Board level. Processes will be subject to ongoing continuous improvement. These activities form part of the Risk Management Strategy as described on pages 110 to 114 of the annual report of Babcock International Group PLC, which does not form part of this report

Remuneration

The Babcock International Group PLC Remuneration Committee is responsible for reviewing the remuneration of employees of the Company, as well as alignment of incentives and rewards with culture, and take these into account when setting the policy for executive remuneration. These activities form part of the Remuneration Strategy as described on pages 154 to 165 of the annual report of Babcock International Group PLC, which does not form part of this report.

Business relationships

The Company's approach to business relationships is detailed in the S172 statement on pages 5 to 9.

Financial risk management

The applicable financial risk management policies and exposure to financial risks including interest, currency and credit risks are discussed in detail on pages 243 to 249 of the annual report of Babcock International Group PLC, which does not form part of this report.

Employment of disabled persons

As a Group we achieved Level 2 accreditation in the UK Government's Disability Confident scheme and are working towards Level 3, demonstrating our commitment to attracting, recruiting, on-boarding and retaining disabled people and those with caring responsibilities, and supporting them in the workplace to achieve their full potential.

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.

Directors report for the year ended 31 March 2026 (continued)

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 2026 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 6-7.

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 page 81 of the annual report of Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 7-8 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.

Political Donations

No donations were made during the year for political purposes. (2025: £nil).

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.

Events after the reporting period

There have been no significant events affecting the Company since the year-end.

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

Following appointment as Independent Auditor of the Company last year, Forvis Mazars LLP is willing to continue in office. A resolution to reappoint Forvis Mazars LLP as Independent Auditor has been proposed and approved by the Group Audit General Meeting.

Directors report for the year ended 31 March 2026 (continued)

Directors' responsibility statement

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.

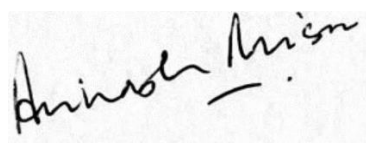
In preparing these financial statements, the Directors are required to:

- 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 Group's website, where specifically regarding the entity of which they are a Director. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

This report was approved by the board on 22nd September 2026 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'A Misra', with a horizontal line underneath the name.

A Misra
Director
22nd September 2026

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

Opinion

We have audited the financial statements of Rosyth Royal Dockyard Limited (the 'company') for the year ended 31 March 2026 which comprise the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity and notes to the financial statements, including material accounting policy information.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2026 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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.

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

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

Other information (*continued*)

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.

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.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 14, 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 the financial statements.

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

Auditor's responsibilities for the audit of the financial statements *(continued)*

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment (including health and safety), data protection, anti-bribery, anti-fraud, anti-corruption, anti-money laundering, national security, fair trading, environmental, import and export controls and government contracting and procurement regulations and conditions.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as financial reporting legislation (including related company legislation such as the Companies Act 2006), pensions legislation and taxation legislation.

In addition, we evaluated the Directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to contract revenue and margin recognition on contracts with indicators of heightened audit risk and the associated accounting for contract assets, contract liabilities, provisions, contingent assets and contingent liabilities, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the Directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit,

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

Auditor's responsibilities for the audit of the financial statements (continued)

there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

Use of the audit 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.

DocuSigned by:

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Louis Burns (Senior Statutory Auditor)
for and on behalf of Forvis Mazars LLP

Chartered Accountants and Statutory Auditor
Three Chamberlain Square
Birmingham
B3 3AX

22nd September 2026

Rosyth Royal Dockyard Limited

Income statement for the year ended 31 March 2026

	Note	2026 £'000	2025 £'000
Revenue	4	299,278	339,144
Cost of revenue		(464,748)	(363,342)
Gross loss		(165,470)	(24,198)
Administration and distribution expenses		(12,524)	(2,377)
Other income	5	12,848	12,946
Operating loss	6	(165,146)	(13,629)
Pension Interest		(989)	(2,430)
Finance income	7	9,221	11,090
Finance costs	7	(21,906)	(17,131)
Loss before taxation		(178,820)	(22,100)
Income tax benefit / (expense)	11	45,648	(4,728)
Loss for the financial year		(133,172)	(26,828)

The notes on pages 23 - 56 form part of these financial statements.

All of the above results derive from continuing operations.

Rosyth Royal Dockyard Limited

Statement of comprehensive income for the year ended 31 March 2026

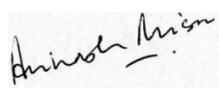
	Note	2026 £'000	2025 £'000
Loss for the financial year		(133,172)	(26,828)
Other comprehensive (expense)/income:			
<i>Items that will not be subsequently reclassified to income statement:</i>			
(Loss) on remeasurement of net defined benefit obligation	25	(5,247)	(410)
Tax on net defined benefit obligation	11	1,312	103
Total comprehensive expense for the year		(137,107)	(27,135)

Rosyth Royal Dockyard Limited

Statement of financial position as at 31 March 2026

	Note	2026 £'000	2025 £'000
Non-current assets			
Intangible assets	12	124,270	126,035
Property, plant and equipment	13	131,033	115,276
Right-of-use assets	14	585	94
Investments in subsidiaries	15	25,372	-
Deferred tax assets	11	-	5,892
Other financial assets	20	4,588	1,473
		285,848	248,770
Current assets			
Inventories	16	345	632
Trade and other receivables	17	176,749	205,646
Other financial assets	20	1,475	1,097
		178,569	207,375
Current liabilities			
Lease liabilities	14	(258)	(8)
Trade and other payables	18	(821,844)	(719,445)
Provision for liabilities	19	(47,727)	(24,188)
Other financial liabilities	20	(124)	(1,639)
		(691,384)	(537,905)
Net current liabilities			
		(405,536)	(289,135)
Total assets less current liabilities			
Non-current liabilities			
Lease liabilities	14	(370)	(89)
Retirement benefit deficits	25	(21,562)	(20,771)
Other financial liabilities	20	(49)	(343)
Deferred tax liability	11	(1,183)	(1,896)
Provision for liabilities	19	(53,058)	(32,417)
		(76,222)	(55,516)
Net liability		(481,758)	(344,651)
Capital and reserves			
Called up share capital	21	250	250
Share premium account		150,322	150,322
Accumulated losses		(632,330)	(495,223)
Total shareholders' deficit		(481,758)	(344,651)

The notes on pages 23-56 are an integral part of these financial statements. The financial statements on pages 19-56 were approved by the board of Directors on 22nd September 2026 and signed on its behalf by:



A Misra
Director

Statement of changes in equity as at 31 March 2026

	Note	Called up share capital £'000	Share premium account £'000	Accumulated losses £'000	Total shareholders' deficit £'000
Balance at 1 April 2024		250	150,322	(468,088)	(317,516)
Loss for the year		-	-	(26,828)	(26,828)
Other comprehensive loss		-	-	(307)	(307)
Total comprehensive expense		-	-	(27,135)	(27,135)
Balance at 31 March 2025		250	150,322	(495,223)	(344,651)
Loss for the year		-	-	(133,172)	(133,172)
Other comprehensive loss		-	-	(3,935)	(3,935)
Total comprehensive expense		-	-	(137,107)	(137,107)
Balance at 31 March 2026		250	150,322	(632,330)	(481,758)

Rosyth Royal Dockyard Limited

Notes to the financial statements

1 General information

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

The ultimate controlling party is disclosed in note 29. 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, unless otherwise stated, are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

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.

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). 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.

In preparing these financial statements, the Company applies the recognition and measurement requirements of UK-adopted international accounting standards, but makes amendments where necessary in order to comply with the Companies Act 2006, and sets out below where advantage has been taken of the FRS 101 disclosure exemptions:

- 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

Rosyth Royal Dockyard Limited**Notes to the financial statements (continued)****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 (reconciliation of shares outstanding from the beginning to the end of the period);
 - 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 disclosures' 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, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- 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 Company intends to continue to prepare its financial statements in accordance with FRS 101.

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2025 and did not have a material impact on the financial statements:

- *Amendments to IAS 21 – Lack of Exchangeability*

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.

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £691m 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 respective other group companies agreeing 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 (UK) Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock (UK) Holdings Limited to provide such finance.

Given the above assessment, the Directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The Directors have not identified 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.

Rosyth Royal Dockyard Limited**Notes to the financial statements** *(continued)***2 Summary of material accounting policies** *(continued)***Revenue** *(continued)***(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 and allocation of contract price to performance obligations

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 (d) 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.

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. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that reversal of cumulative revenue including such variable consideration is not considered to be highly probable.

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.

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.

(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:

- 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.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition *(continued)*

Revenue recognised over time

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 the Company'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 (g) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(d) 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 modifications as described 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.

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 are often required 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 third-party sub-contractors or 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.

(e) 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.

(f) 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.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(g) 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.

Other income

Other income represents income derived from non-core business activities and is recognised in the period to which it relates.

Government Grants – Research and Development Expenditure Credit (RDEC)

RDEC is accounted for as a government grant under IAS20. It is recognised at fair value where there is reasonable assurance that the grant will be received, and the Company complies with the attached conditions.

The credit is recognised in the period in which the qualifying expenditure is incurred and is presented as Other Income within operating profit.

Finance costs

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

Finance income

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

Employee benefits

(a) Pension obligations

Defined benefit schemes

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

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

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

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

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

Defined contribution schemes

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Employee benefits *(continued)*

(b) Share-based compensation

The Company participates in equity-settled share-based compensation plans under which employees receive equity instruments of Babcock International Group PLC. The Company receives employee services in consideration for those equity instruments. The fair value of the awards is determined by reference to appropriate valuation techniques, including option pricing models where applicable. 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.

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

(a) Current income tax

balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

(b) Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred 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 effects neither accounting nor taxable profit or loss, it is not accounted for. Deferred 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 tax asset is realised or the deferred tax liability is settled.

Deferred 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.

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.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

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.

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. Goodwill impairments are not subsequently reversed. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

Had goodwill been amortised over its estimated useful economic life, the amortisation charge for the year would have been £5,783,000 (2025: £5,783,000) and profit after tax and net assets would have been reduced by this amount. Had goodwill been amortised over its estimated useful economic life the net book value would have been £86,738,000 (2025: £92,521,000).

(b) Intellectual property

The intellectual assets refer to the intellectual property, including licences, 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 up to ten years.

Investments

Investments in subsidiary undertakings are stated at cost less accumulated impairment losses. Investments are reviewed for impairment at least annually. The recoverable amount is measured as the higher of fair value less costs of disposal, and value-in-use. In assessing value in use, the estimated future cash flows of the underlying investment are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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 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.

Investments

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Impairment of non-current assets

Goodwill is 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 (Cash-Generating Unit) 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.

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.

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

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Leases *(continued)*

The Company as lessee *(continued)*

on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

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

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

The Company as lessor

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

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

Inventory

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

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

Trade and other receivables

Trade and other receivables are measured at amortised cost less expected credit loss allowances. Expected credit losses are recognised in accordance with IFRS 9.

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 Company 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.

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.

Amounts due from group undertakings in relation to 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 statement of financial position date that are settled within twelve months are recorded as current assets.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

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 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 statement of financial position date that are due to be settled within twelve months are recorded as current liabilities.

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 Company 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 27 for details of contingent liabilities.

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 the 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 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.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Financial instruments *(continued)*

(b) Derivative financial instruments *(continued)*

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 statement of financial position 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.

3 Critical accounting estimates and judgements

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

Critical accounting judgements

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

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty

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

Revenue and profit recognition

The following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Company's contracts with customers:

- *Stage of completion & costs to complete* – 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.
- *Variable consideration* – the Company's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- *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 revenue and 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. The Company endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

The above assumptions all impact upon each individual contract to varying extents depending on the risk profile of the contract and the individual contract terms and conditions. As such sensitivities to these assumptions are not provided as to do so is not considered practicable.

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. This has resulted in the contract being loss-making, together with increases in estimated costs due to the maturing of the design and the forecast cost of labour.

As the Company finishes structural completion of ship one, the bulk of the remaining work now relates to outfitting and commissioning. During the outfitting stage we have experienced higher than expected levels of rework as a result of changes to the design and the long-term impacts of out-of-sequence build activity earlier in the programme. Whilst the number of such rework events is not entirely unexpected, the work is being performed in the later stages of completion and therefore is more complex and more costly. The ability to increase levels of programme productivity through full enablement of production tasks has also been impacted. As the build of ship two is close behind ship one, there is also some cross over in the design-related work necessary to this ship. With ships three and four still in the early construction stages, the extent of impact on these and future vessels is comparatively reduced.

As a consequence, we have performed an engineering maturity review, and we have updated our financial estimates to complete the programme. These re-estimates not only cover the production costs of material and personnel, but also an increased programme risk contingency.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Revenue and profit recognition *(continued)*

This is reflected in a charge on the contract at the year-end of £140.0 million for the revised costs to complete delivery of the Type 31 design and build contract which is fully recognised in FY26, but the cash costs of which will be incurred over the remainder of the programme. Within the £140.0 million charge, £95.5 million is recognised as a revenue reversal in FY26 (with a corresponding increase in contract liabilities) and the balance increases the contract loss provision.

The estimation process has been extensive given the new information available. The key steps are set out below but this year has involved further and deeper analysis of operational data, the results of pilot schemes, input from external experts and the customer, consideration of alternative assumptions and retrospective review of previous assumptions. Multiple review processes were held between Programme, Sector and Group management, culminating in dedicated reviews with the Group Audit Committee which focused on the key assumptions around productivity, rework, labour costs, schedule and risk. These reviews involved direct challenge of key representatives from the contract team, assessment of the process followed and independent scrutiny of the available evidence for key assumptions.

Following the estimation process we have reassessed and updated the disclosure of major sources of estimation uncertainty set out below.

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 made in assessing the outturn are set out below, along with the related estimation methods and data sources.

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 operational improvement programme and evidence from pilot work. The volume of activities is based on a detailed assessment of the Bill of Materials, supported by dedicated engineering software

b) The ability to improve operational performance through quality and engineering improvements over the five ships – which requires actions to reduce re-work, particularly arising from engineering change

c) 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 and the utilisation of semi-skilled and apprentice workers. A detailed resourcing plan is used to support this estimate

d) The cost of bought-in parts and services through suppliers and sub-contractors – which includes the outcome of remaining procurement activity, the finalisation of areas of unagreed pricing and the agreement of discounts and incentive arrangements

e) The number of hours required by support functions – primarily in engineering which requires effective management of production support and change requests. A detailed engineering maturity review has been performed to support this estimate

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

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Revenue and profit recognition *(continued)*

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

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 Group levels, culminating in dedicated reviews with the Group 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 and quality/engineering improvements (see a) and b) above). A 10% increase/decrease in production hours would increase/decrease the loss by £29 million

Labour rate – which is impacted by our ability to recruit permanent staff, the mix of the workforce, ancillary costs and inflation (see c) and g) above). A 10% increase/decrease in the average labour rate would increase/decrease the loss by £34 million

Schedule – which is impacted by various factors above. A 6-month delay beyond the current planning assumption would increase the loss by £15 million

Overall, with c.£0.7 billion 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.£70 million. Any increase in loss would cause a commensurate deterioration in the balance sheet through a combination of an increase to the onerous loss provision (note 19), reductions in contract assets (note 17) or increases in contract liabilities (note 18).

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. The uncertainty over the contract outturn will reduce in the next financial year but there will be substantial activity and risk 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)

Key sources of estimation uncertainty (continued)

Defined benefit pension schemes

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. Further information on the key assumptions and sensitivities is included in note 25.

4 Revenue

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

	2026 £'000	2026 £'000	2026 £'000	2026 £'000	2026 £'000	2026 £'000
	Naval Support	Submarine dismantling	Property leasing	Vessel Build	Marine Design & commercial	Total
By area of activity:						
Sale of goods – over time	44,053	81,694	-	106,168	62,872	294,787
Sale of goods – at a point in time	1,943	-	-	-	1,701	3,644
Rental income	-	-	632	-	-	632
Lease income (IFRS 16)	-	-	215	-	-	215
	45,996	81,694	847	106,168	64,573	299,278
	2025 £'000	2025 £'000	2025 £'000	2025 £'000	2025 £'000	2025 £'000
	Naval Support	Submarine dismantling	Property leasing	Vessel Build	Marine Design & commercial	Total
By area of activity:						
Sale of goods – over time	27,723	53,284	-	183,340	66,951	331,298
Sale of goods – at a point in time	3,518	-	-	-	3,601	7,119
Rental income	-	-	385	-	-	385
Lease income (IFRS 16)	-	-	342	-	-	342
	31,241	53,284	727	183,340	70,552	339,144
					2026 £'000	2025 £'000
By geographical area:						
United Kingdom					240,342	277,193
Europe					14,671	24,665
USA & Canada					44,265	37,286
					299,278	339,144

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

5 Other Income

Government grant amounted to £12,848,000 (2025: £12,946,000). In the course of our business, we received certain government grants or contributions, including the UK Research & Development Expenditure Credit.

6 Operating loss

Operating loss is stated after charging:

	2026 £'000	2025 £'000
Depreciation of property, plant and equipment (Note 13)	9,285	10,041
Right of use depreciation (Note 14)	97	17
Amortisation of intangible assets (Note 12)	1,765	1,913
Lease expenses for low value assets and short-term leases (Note 14)	163	240

Fees paid to the Company's auditor, Forvis Mazars LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. Auditor fees of £480,000 (2025: £479,000) were borne by a fellow group company and recharged.

7 Finance income and costs

	2026 £'000	2025 £'000
Finance income:		
Bank interest income	3,918	4,086
Fair value movement on derivatives	5,303	5,379
FX movement on Intercompany Loans	-	1,621
Loan interest receivable from group undertakings	-	4
	9,221	11,090

	2026 £'000	2025 £'000
Finance costs:		
Bank borrowings	(15,970)	(11,033)
Interest on contract	(2,161)	(2,686)
Lease interest	(21)	(8)
Loan interest payable from group undertakings	(3,691)	(3,404)
FX movement on Intercompany Loans	(63)	-
	(21,906)	(17,131)

8 Staff costs

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

	2026 Number	2025 Number
By activity:		
Operations	2,024	1,697
Management and administration	159	146
	2,183	1,843

Their aggregate remuneration comprised:

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

8 Staff costs (continued)

	2026 £'000	2025 £'000
Wages and salaries	112,416	94,571
Social security costs	13,696	9,319
Pension costs – defined contribution plans (note 25)	6,472	4,592
Pension costs – defined benefit plans (note 25)	1,436	3,373
Share-based payments (note 10)	69	7
	134,089	111,862

9 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:

	2026 £'000	2025 £'000
Remuneration (including benefits in-kind)	2,027	536
Defined contribution pension scheme	34	53
	2,061	589

During the year three (2025: one) Director's remunerated by Rosyth Royal Dockyard Limited exercised share options under long term incentive plans and three (2025: three) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Director (2025: one) under defined benefit pension schemes.

Except for three (2025: three) Directors, all 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:	2026 £'000	2025 £'000
Remuneration (including benefits in-kind)	1,006	387
Defined contribution pension scheme	-	16

The highest paid Director exercised shares under long term incentive plans (2025: exercised shares under long term incentive plans).

The highest paid Director's defined benefit accrued pension and accrued lump sum at 31 March 2026 was £nil (2025: £nil) and £nil (2025: £nil), respectively.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

10 Share-based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to 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.

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

Performance Share Plan (PSP)

	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
2025 PSP	929,031	1,101	-	4.0	100.0%	-	1,101	-	07/07/25
2025 PSP	45,712	1,259	-	4.0	100.0%	-	1,259	-	15/12/25
2025 PSP	803,271	1,302	32.9%	4.0	100.0%	-	1,167	-	29/09/25
2024 PSP	1,799,822	523	-	4.0	100.0%	-	523	-	01/08/24
2024 PSP	1,887,244	523	31.5%	4.0	100.0%	-	470	-	01/08/24
2024 PSP	70,742	523	31.5%	6.0	100.0%	-	470	-	01/08/24
2024 PSP	61,772	510	-	4.0	100.0%	-	510	-	02/12/24
2024 PSP	4,860	510	-	2.0	100.0%	-	510	-	02/12/24
2024 PSP	14,582	510	-	3.0	100.0%	-	510	-	02/12/24
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%	-	382	-	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
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
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
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

All awards have an exercise price of £nil and as such the weighted average exercise price for shares granted, exercised, forfeited and outstanding are all £nil.

The vesting period and the expected life of PSP awards are between one and 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.

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.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

10 Share-based payments (continued)

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.

For PSP awards made in August to December 2024, 1,881,036 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 1,957,986 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

For PSP awards made in July to December 2025, 974,743 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 803,271 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

The Group operates the Babcock Colleague 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 53,397 matching shares (2025: 92,641 matching shares) at a cost of £0.4 million (2025: £0.5 million).

During the year the total charge to the Company relating to employee share-based payment plans was £69,000 (2025: £7,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £51,000 (2025: £5,000).

11 Tax

Income tax (benefit)/expense

	2026 £'000	2025 £'000
Analysis of tax (benefit)/expense in the year		
Current tax		
• Adjustment in respect of prior periods	(2,650)	6,600
• Group relief for consideration	(49,489)	(14,089)
• Overseas current year expense	-	66
	(52,139)	(7,423)
Deferred tax		
• Adjustments in respect of deferred tax for prior years	(78)	-
• UK prior year expense	-	3,136
• Origination and reversal of timing differences	6,569	9,015
Total income tax (benefit)/expense	(45,648)	4,728

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

11 Tax (continued)

Tax benefit to the statement of comprehensive income

	2026 £'000	2025 £'000
• Tax on net defined benefit obligation	(1,312)	(103)
Total tax benefit to other comprehensive income	(1,312)	(103)

The tax for the year is lower (2025: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2026 £'000	2025 £'000
Loss before tax	(178,820)	(22,100)
Loss on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2025: 25%)	(44,705)	(5,525)
Effects of:		
Expenses not deductible for tax purposes	1,785	451
Group relief surrendered for nil consideration		-
Overseas tax		66
Adjustments in respect of deferred tax for prior years	(78)	3136
Prior year adjustments	(2,650)	6,600
Total income tax (benefit)/ expense	(45,648)	4,728

In July 2023, the UK enacted legislation to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting and a UK qualified domestic minimum top-up tax. The legislation applies to the Company with effect from 1 April 2024. Under the Pillar Two rules, a top-up tax liability arises where the effective tax rate of the Company and its fellow subsidiaries in the same jurisdiction is below 15%. The Company has applied the temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred. The Company does not expect to have a Pillar Two tax liability for the period.

Deferred tax

Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances have been calculated at 25%.

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:

	2026 £'000	2025 £'000
Deferred tax asset	-	5,892
Deferred tax liability	(1,183)	(1,896)
	(1,183)	3,996

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

11 Tax (continued)

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

	Tangible assets £'000	Retirement benefit obligations £'000	Other £'000	Derivatives £'000	Total £'000
At 1 April 2025	(1,896)	5,193	699	-	3,996
Tax (debit)/credit to income statement	(5,470)	(1,114)	240	(147)	(6,491)
Tax credit to other comprehensive income/equity	-	1,312	-	-	1,312
At 31 March 2026	(7,366)	5,391	939	(147)	(1,183)

The Directors are of the opinion that the Company will generate suitable taxable profits from which the future reversal of the timing difference can be deducted.

12 Intangible assets

	Intellectual Property £'000	Goodwill £'000	Total £'000
Cost			
At 1 April 2025	21,605	115,653	137,258
At 31 March 2026	21,605	115,653	137,258
Accumulated amortisation and impairment			
At 1 April 2025	(11,223)	-	(11,223)
Amortisation	(1,765)	-	(1,765)
At 31 March 2026	(12,988)	-	(12,988)
Net book value			
At 31 March 2026	8,617	115,653	124,270
At 31 March 2025	10,382	115,653	126,035

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.

As required by IFRS as applied under FRS 101, the company does not amortise goodwill. This conflicts with UK company law, 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 requirements of company law under paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008' (SI 2008/410).

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

13 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 2025	69,154	1,483	75,812	50,597	8,938	205,984
Additions	-	-	-	-	25,042	25,042
Reclassification	1,585	-	7,764	-	(9,349)	-
Disposals	(1,919)	(188)	(17,244)	-	-	(19,351)
At 31 March 2026	68,820	1,295	66,332	50,597	24,631	211,675
Accumulated depreciation						
At 1 April 2025	(17,206)	(1,483)	(34,815)	(37,204)	-	(90,708)
Charge for the year	(1,855)	-	(4,330)	(3,100)	-	(9,285)
Reclassification	(91)	-	91	-	-	-
Disposal	1,919	188	17,244	-	-	19,351
At 31 March 2026	(17,233)	(1,295)	(21,810)	(40,304)	-	(80,642)
Net book value						
At 31 March 2026	51,587	-	44,522	10,293	24,631	131,033
At 31 March 2025	51,948	-	40,997	13,393	8,938	115,276

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 (2025: £1,440,000), their net book value under the cost model is nil (2025: £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.

14 Leases

Right-of-use assets

The Company leases property under non-cancellable lease arrangements.

	Property £'000	Total £'000
Cost		
At 1 April 2025	170	170
Additions	588	588
At 31 March 2026	758	758
Accumulated depreciation		
At 1 April 2025	(76)	(76)
Charge for the year	(97)	(97)
At 31 March 2026	(173)	(173)
Net book value		
At 31 March 2026	585	585
At 31 March 2025	94	94

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

14 Leases (continued)

Lease liabilities

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

	2026 £'000	2025 £'000
At 31 March	97	106
Additions	653	-
Interest charged	21	7
Payments	(143)	(16)
At 31 March	628	97

The Company had total cash outflows for leases of £143,000 for the year ended 31 March 2026 (2025: £16,000).

The following are the amounts recognised in profit or loss:

	2026 £'000	2025 £'000
Expense relating to short-term and low-value leases	163	240
	163	240

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:

	2026 £'000	2025 £'000
Operating lease – rental income	215	342

Operating lease payments receivable

	2026 £'000	2025 £'000
Within one year	148	219
Greater than one year but less than two years	36	37
Greater than two years but less than three years	36	36
Greater than three years but less than four years	36	36
Greater than four years but less than five years	36	36
Greater than five years	18	57
Total undiscounted operating lease payments receivable	310	421

There was no impairment of lease receivables in the year ended March 2026 (March 2025: £nil).

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

15 Investments in subsidiaries

Shares in subsidiary undertakings

	2026 £'000
Cost	
At 1 April	-
Additions	25,372
At 31 March	25,372
Accumulated impairment	
At 1 April and At 31 March	-
Net book value	
At 31 March	25,372

During the year the Company acquired a 100% shareholding in Babcock Marine Design Limited.

Details of Subsidiary undertakings can be found in Note 26.

During the year, the Company recognised an impairment charge of £Nil (2025: Not applicable)

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

Key assumptions

The key assumptions to which the recoverable amount of the Company's investment in subsidiary undertakings is most sensitive to, are future cash flows, long-term growth rates and discount rates.

Management assessed the investment for indicators of impairment at 31 March 2026. No indicators were identified. Accordingly, no detailed impairment test was required under IAS 36.

Details of the investments are outlined in note 26.

16 Inventories

	2026 £'000	2025 £'000
Raw materials	345	632

Inventories are stated after provisions for impairment of £302,000 (2025: £333,000).

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

17 Trade and other receivables

	2026 £'000	2025 £'000
Current assets:		
Trade receivables	4,203	9,022
Contract assets	12,876	16,768
Amounts due from group undertakings	143,296	158,965
Other receivables	278	455
Capitalised contract costs	8	822
VAT	6,652	2,577
Prepayments	9,436	17,037
	176,749	205,646

Trade receivables are stated after provisions for impairment of £1,933,000 (2025: Nil).

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

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.

The Company recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 3. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

Significant changes in contract assets during the year are as follows:

	2026 £'000	2025 £'000
At 1 April	16,765	7,477
Transfers from contract assets recognised at the beginning of the year to receivables	(11,661)	(6,071)
Increase due to work done not transferred from contract assets	7,772	15,362
At 31 March	12,876	16,768

18 Trade and other payables

	2026 £'000	2025 £'000
Current liabilities:		
Trade payables	7,627	13,528
Contract liabilities	336,124	246,815
Amounts due to parent and group undertakings	406,162	407,764
Other taxation and social security	5,299	4,482
Contract cost accruals	20,736	23,132
Accruals	21,159	23,724
Deferred income	24,737	-
	821,844	719,445

Amounts due to Group undertakings comprises the following:

- No loan (2025: one) due to a group company totalling £nil (2025: £94,317,000) is repayable on demand, the interest rate is nil (2025: 5.92%).
- One loan (2025: one) due to a group company totalling £1,000 (2025: £613,000) are repayable on demand, with no interest charge.
- All other amounts due from group undertakings are unsecured and repayable on demand.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

18 Trade and other payables (continued)

In the prior year, the Company had access to the Babcock International Group PLC overdraft facility, and along with fellow group undertakings provided cross-guarantees in relation to this facility. These were cancelled in the period to 31 March 2025 (note 26).

Significant changes in contract liabilities during the year are as follows:

	2026 £'000	2025 £'000
At 1 April	246,815	225,002
Revenue recognised that was included in contract liabilities at the beginning of the year	(95,228)	(209,821)
Increase due to cash received, excluding amounts recognised as revenue	184,537	231,634
At 31 March	336,124	246,815

19 Provisions for liabilities

The company had the following provisions during the year:

	Contract/ Warranty £'000	Property £'000	Other £'000	Total £'000
At 1 April 2025	(52,621)	(3,984)	-	(56,605)
Charged to the income statement	(51,477)	(579)	(6,853)	(58,909)
Discounting	(1,970)	(192)	-	(2,162)
Utilised in the year	16,891	-	-	16,891
At 31 March 2026	(89,177)	(4,755)	(6,853)	(100,785)

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

	2026 £'000	2025 £'000
Current	(47,727)	(24,188)
Non-current	(53,058)	(32,417)
	(100,785)	(56,605)

Contract/warranty provisions include the expected future loss on Type 31, which is expected to be utilised by 2031.

Property provisions are in respect of lease arrangements for the Firth of Forth seabed. These represent expected dilapidation costs to be incurred in restoring the seabed sites to the conditions required under the lease agreements.

The other provision relates to expected future costs anticipated to be incurred by 2027.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

20 Other financial assets and liabilities

Included in derivative financial instruments at fair value:

	2026		2025	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Non- Current:				
Forward FX contracts	4,588	(49)	1,473	(343)
	4,588	(49)	1,473	(343)
Current:				
Forward FX contracts	1,475	(124)	1,097	(1,639)
	1,475	(124)	1,097	(1,639)

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.

21 Share capital

	2026 £'000	2025 £'000
Allotted, called up and fully paid		
200,072 Ordinary shares of £1 each (2025: 200,072)	200	200
49,998 "A" ordinary shares of £1 each (2025: 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.

22 Dividends

Dividends declared and paid were nil (2025: nil). There are no plans for a final dividend.

23 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2026 the Company had capital commitments of £9,497,000 (2025: £5,099,000) for the purchase of various plant and equipment.

24 Related party disclosures

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

In the year ended 31 March 2026 and 31 March 2025, the Company had no transactions or balances outstanding with related parties that fall outside the scope of FRS 101 exemption criteria other than Director's emoluments as set out in Note 9.

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

25 Pension commitments

Pension costs for defined contribution schemes are as follows:

	2026 £'000	2025 £'000
Defined contribution schemes	<u>6,472</u>	<u>5,877</u>

Statement of financial position liabilities recognised are as follows:

	2026 £'000	2025 £'000
Retirement benefits – funds in deficit	<u>(21,562)</u>	<u>(20,771)</u>

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

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

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

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

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

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.

Rosyth Royal Dockyard Pension scheme

The IAS 19 valuation has been updated at 31 March 2026 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full triennial actuarial valuation was 31 March 2024. The major assumptions used for the IAS 19 valuation were:

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

25 Pension commitments (continued)

	2026	2025
	%	%
Major assumptions		
Rate of increase in pensionable salaries	-	-
Rate of increase in pensions	3.4	3.1
Discount rate (past service)	6.0	4.8
Total life expectancy for current male pensioners aged 65 (years)	19.9	19.5
Total life expectancy for future male pensioners currently aged 45 (years)	21.9	20.6
Total life expectancy for current female pensioners aged 65 (years)	20.9	21.8
Total life expectancy for future female pensioners currently aged 45 (years)	23.1	23.0

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

Future service contribution rate	n/a
Deficit contributions	£4.5m
Expected employer cash costs for 2026/27	£4.5m
Expected salary sacrifice contributions	-
Expected total employer contributions	£4.5m

The changes to the Babcock International Group PLC balance sheet at March 2026 and the changes to the Babcock International Group PLC income statement for the year to March 2027 if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2026 £'000	Projected income statement 2027 £'000
Initial assumptions	562,229	2,135
Discount rate assumptions increased by 0.5%	(28,061)	(1,696)
Discount rate assumptions decreased by 0.5%	30,769	1,566
Inflation rate assumptions increased by 0.5%	22,814	1,369
Inflation rate assumptions decreased by 0.5%	(22,059)	(1,323)
Total life expectancy increased by half a year	11,037	663
Total life expectancy decreased by half a year	(11,349)	(681)

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 2026 were:

	2026 £'000	2025 £'000
Fair value of plan of assets		
Growth assets		
Equities	55,026	50,672
Property funds	36,649	37,164
High yield bonds/emerging market debt	-	-
Absolute return and multi-strategy funds	443	511
Low-risk assets		
Bonds	260,363	239,589
Matching assets	258,652	289,617
Collateral	-	-
Longevity swaps	(78,480)	(76,400)
Fair value of assets	532,653	541,153
Present value of defined benefit obligations	(562,229)	(569,646)
Total defined benefit obligations	(562,229)	(569,646)
Net liabilities recognised in the statement of financial position	(29,576)	(28,493)

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

25 Pension commitments (continued)

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:

	2026 £'000	2025 £'000
Incurred expenses	613	1,294
Total included within operating profit	613	1,294
Net interest (receivable)/cost	1,357	3,333
Total included within income statement	1,970	4,627

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, £447,000 for incurred expenses (2025: £943,000) and net interest cost of £989,000 (2025: £2,430,000).

Amounts recorded in the Group statement of comprehensive income:

	2026 £'000	2025 £'000
Actual return less interest on pension scheme assets	(2,782)	(64,294)
Experience (losses) / gains arising on scheme liabilities	(8,788)	53,183
Changes in assumptions on scheme liabilities	6,563	(4,820)
	(5,007)	(15,931)

The actuarial loss recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £5,247,000 (2025: £410,000).

Analysis of movement in the Group statement of financial position:

	2026 £'000	2025 £'000
Fair value of plan assets		
At 1 April	541,153	558,344
Interest on assets	29,962	26,597
Actuarial (loss) on assets	(2,782)	(48,363)
Employer contributions	5,894	44,369
Benefits paid	(41,574)	(39,794)
At 31 March	532,653	541,153

Rosyth Royal Dockyard Limited

Notes to the financial statements (continued)

25 Pension commitments (continued)

	2026 £'000	2025 £'000
Present value of benefit obligations		
At 1 April	569,646	642,510
Service cost	-	-
Incurred expenses	613	1,294
Interest cost	31,319	29,930
Experience loss/(gain)	8,788	(2,043)
Actuarial loss/(gain) – demographics	(247)	3,033
Actuarial gain – financial	(6,316)	(65,284)
Benefits paid	(41,574)	(39,794)
Total defined benefit obligations	562,229	569,646

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 £21,562,000 (2025: £20,771,000).

Virgin Media Case

The Company is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for it to have an impact on the Group's UK 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 prior to 6 April 2016, 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 for the purposes of Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the High Court 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 was appealed and, in a judgment delivered in July 2024, the Court of Appeal upheld the High Court's decision.

The Company is aware that a further case has been heard in the High Court in 2025 (judgment in respect of which is still awaited) and that such case may provide additional clarity on issues related to the Virgin Media case and its implications for certain schemes and relevant historic amendments.

The Company and the trustees of its defined benefit pension schemes had taken initial advice on the implications of the Virgin Media case for the Company's defined benefit pension schemes. For one scheme we received confirmation that there is no evidence to conclude that pension scheme liabilities have been understated as a result of non-compliance with section 37 of the Pension Schemes Act 1993 during the relevant period. For the other potentially impacted schemes, there was a process to identify areas that may require further investigation, depending on developing case law and the introduction of legislation on this point.

The Pension Schemes Act 2026 (which gained Royal Assent on 29 April 2026) now includes a so-called legislative solution in relation to this issue. The Company understands this provides, broadly, for a process for schemes to obtain retrospective actuarial confirmation in relation to historic benefit changes which (subject to the relevant steps and conditions) could result in the scheme being treated as having met the requirements of Section 37 of the Pension Schemes Act 1993 in respect of the identified benefit changes.

The next steps for the potentially impacted schemes, which may include the use of the legislative solution, will now be considered in light of the Pension Schemes Act 2026. The potential impact on the Company is therefore not yet known and continues to be assessed.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

26 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Address	Interest	Direct %
Babcock Marine Design Limited	United Kingdom	33 Wigmore Street, London, United Kingdom, W1U 1QX	26,371 Ordinary shares	100.0%
Rosyth Royal Dockyard Pension Trustees Limited	United Kingdom	Rosyth Business Park, Rosyth, Dunfermline, Fife, KY11 2YD	100 Ordinary shares	100.0%

27 Contingent liabilities

The Company had previously guaranteed or had joint and several liability for bank facilities that are shared across multiple Group companies, these were cancelled in the period to 31 March 2025.

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. The Company does not recognise contingent liabilities. There are a number of contingent liabilities that arise in the normal course of business, including:

a) The nature of the Company's long-term contracts means that there are reasonably frequent contractual issues, variations and renegotiations that arise in the ordinary course of business, including liabilities that arise on completion of contracts and on conclusion of relationships with joint ventures and associates. The Company takes account of the advice of experts, both internal and external, in making judgements on contractual issues and whether the outcome of negotiations will result in an obligation to the Company. The Directors do not believe that the outcome of these matters will result in any material adverse change in the Company's financial position.

b) As a large contracting organisation, the Company has a significant number of contracts with customers to deliver services and products, as well as with its supply chain, where the Company cannot deliver all those services and products itself. The Company is involved in disputes and litigation, which have arisen in the course of its normal trading in connection with these contracts. Whilst the Directors do not believe that the outcome of these matters will result in any material adverse change in the Company's financial position, it is possible that, if any of these disputes come to court, the court may take a different view to the Company.

c) The Company is subject to corporate and other tax rules in the jurisdictions in which it operates. Changes in tax rates, tax reliefs and tax laws, or interpretation of the law, by the relevant tax authorities may result in financial and reputational damage to the Company. This may affect the Company's financial condition and performance.

d) The Company has given certain indemnities and warranties in the course of disposing of businesses and companies and in completing contracts. The Company believes that any liability in respect of these is unlikely to have a material effect on the Company's financial position.

e) Corporate rules in those jurisdictions may also extend to compensatory trade agreements, or economic offset rules, where we may have to commit to use local content in delivering programmes of work. Delivery of offset is also subject to interpretations of law and agreement with local authorities, which we monitor closely but may give rise to financial and reputational damage to the Company if not undertaken appropriately.

Rosyth Royal Dockyard Limited

Notes to the financial statements *(continued)*

28 Events after the reporting period

There have been no significant events affecting the Company since the year-end.

29 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