

DEVONPORT ROYAL DOCKYARD LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2003



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DEVONPORT ROYAL DOCKYARD LIMITED

DIRECTORS AND ADVISERS

Directors:	A F Pryor CBE	Chairman
	Dr D E Gilbert CBE	Chief Executive
	H W Warren	Finance Director
	D A M Dunbar	
	I P Tyler	
	B Stanski	
	A Rose	
	I Boyd	
	C Mead	

Secretary:	H W Warren
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Auditors:	KPMG LLP
	Chartered Accountants
	Plym House
	3 Longbridge Road
	Marsh Mills
	Plymouth
	PL6 8LT

Bankers:	HSBC Bank plc
	Royal Bank of Scotland
	Bank of Scotland

Registered Office:	Devonport Royal Dockyard
	Devonport
	Plymouth
	PL1 4SG

Registered Number:	2077752
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DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT
for the year ended 31 December 2003

The Directors submit their report and audited financial statements for the year ended 31 December 2003.

Principal Activities, Business Review and Future Developments

The principal activities of the Company are the refitting and maintenance of naval vessels and associated equipment. Further comments are included in the Chairman's Statement of Devonport Management Limited, the parent company.

Results and Dividends

The trading profit for the year after taxation was £20,059,000 (2002 - £12,750,000). Interim dividends of £10,076,000 were proposed during the year (2002 - £193,000) and no final dividend for the year ended 31 December 2003 has been proposed by the Directors (2002 - Nil).

Directors

The Directors who served during the year were as follows:

A F Pryor CBE	Chairman
Dr D E Gilbert CBE	Chief Executive
H W Warren	Finance Director
D A M Dunbar	
I P Tyler	
E Read	Resigned on 22 December 2003
B Stanski	Appointed on 22 December 2003
A Rose	
I Boyd	
C Mead	

Details of Director's interests in the ultimate parent company are disclosed in the accounts of the intermediate parent company, Devonport Management Limited.

Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Board Committees

To assist the Directors in the exercise of their duties, a remuneration committee has been set up to approve senior management salaries, performance related bonuses and other benefits. The audit committee reviews the financial statements, the operation of internal control and the conduct of the external audit. Both committees are independent of executive management being composed principally of non executive directors.

DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT
for the year ended 31 December 2003

Charitable Donations

The Company made charitable donations during the year amounting to £5,299 (2002 - £3,185).

Creditor Payment Policy

It is the Company's policy and practice to pay suppliers on the Friday after 30 days from the invoice date (based on the timely receipt of an accurate invoice) unless other terms are specifically agreed with the supplier.

Trade creditor days of the Company for the year ended 31 December 2003 were 15.9 days (2002 - 40.7 days), based on the ratio of the average Group trade creditors during the year to the amounts invoiced during the period by trade creditors.

Employment of Disabled Persons

The policy of the Company is to give full consideration to applications for employment from disabled persons who have the aptitudes and abilities to meet the requirements of the job. An employee who becomes disabled will continue to be employed where possible under the same terms and conditions. Training and career development applies wherever appropriate to all employees including disabled persons.

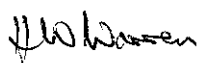
Employee Involvement

The Devonport Management Limited Group, of which the Company is a 100% subsidiary, places considerable emphasis on maintaining good communications with all employees. To this end, it operates a system of regular team briefings which are cascaded to all employees, and distributes a regular in-house newspaper to them, in addition to conducting a system of formal meetings with their managers to update them on current developments. The Group also has a "sharing in success" scheme which provides an annual bonus, linked to the Company's profit achieved during the financial year, to each employee. It also operates a suggestions scheme, encouraging employees to put forward ideas with a view to reducing costs and improving efficiency.

Auditors

A resolution for the reappointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD



H W WARREN
Secretary

Date: 25 May 2004

Registered Address:

Devonport Royal Dockyard
Devonport
Plymouth
Devon
PL1 4SG

KPMG LLP

*Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom*

Report of the independent auditors to the members of Devonport Royal Dockyard Limited

We have audited the financial statements on pages 7 to 22. This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2003 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
*Chartered Accountants
Registered Auditor*

Date: 15-06-04

DEVONPORT ROYAL DOCKYARD LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2003

	Notes	31 December 2003	31 December 2002	31 December 2002	31 December 2002
		£'000	£'000	£'000	£'000
			Before Exceptional Items	Exceptional Items	After Exceptional Items
Turnover	2	371,416	365,372	-	365,372
Cost of Sales		(340,725)	(339,781)	(5,250)	(345,031)
Operating Profit	3	30,691	25,591	(5,250)	20,341
Net interest (payable)	4	(1,255)	(666)	-	(666)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		29,436	24,925	(5,250)	19,675
Taxation on profit on ordinary activities	5	(9,377)	(8,500)	(1,575)	(6,925)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	20,059	16,425	(3,675)	12,750
DIVIDENDS	6	(10,076)	(193)	-	(193)
RETAINED PROFIT for year		9,983	16,232	(3,675)	12,557

The accompanying notes on pages 9 to 22 are an integral part of this profit and loss account.

The movement in reserves is given in note 14 to the accounts.

The Company had no recognised gains or losses in either year other than the profit for those years.

All activities relate to continuing activities.

DEVONPORT ROYAL DOCKYARD LIMITED
BALANCE SHEET
as at 31 December 2003

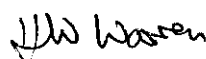
		31 December 2003	31 December 2002
	Notes	£'000	£'000
FIXED ASSETS			
Tangible assets	7	167,245	158,006
		<u>167,245</u>	<u>158,006</u>
CURRENT ASSETS			
Stocks	8	5,498	15,674
Debtors:	9		
- falling due within one year		65,038	43,527
- falling due after more than one year		2,123	2,528
Cash at bank and in hand		9,029	19,946
		<u>81,688</u>	<u>81,675</u>
CREDITORS: amounts falling due within one year	10	(124,363)	(128,568)
		<u>(42,675)</u>	<u>(46,893)</u>
NET CURRENT LIABILITIES			
TOTAL ASSETS LESS CURRENT LIABILITIES		124,570	111,113
CREDITORS: amounts falling due after more than one year	11	(33,352)	(38,747)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(15,602)	(6,733)
NET ASSETS		<u>75,616</u>	<u>65,633</u>
CAPITAL AND RESERVES			
Called up share capital	13	5,350	5,350
Share premium account	14	32,700	32,700
Profit and loss account	14	37,566	27,583
EQUITY SHAREHOLDERS' FUNDS		<u>75,616</u>	<u>65,633</u>

The accompanying notes on pages 9 to 22 are an integral part of this balance sheet.

Approved by the Board of Directors on
and signed on its behalf by:-



Director
D E GILBERT



Director
H W WARREN

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

1. ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. The Company has followed the transitional arrangements of FRS 17 "Retirement benefits" in these financial statements.

a) Accounting convention and basis of consolidation

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

b) Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows: -

Freehold Buildings	5 - 25 years
Plant and Machinery	7 years
Tools and Equipment	4 years
Freehold Land is not depreciated.	

c) Stocks

Stocks are stated at the lower of cost (on a first in first out basis) and net realisable value. Cost includes materials, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

d) Long-term contracts

Contracts are deemed long term if they provide for payments on account, which is generally those contracts which extend for more than three months.

The sales value of long-term contracts is apportioned between the variable element and the contribution to fixed overhead costs. Turnover is recognised on the variable element as work progresses and on the fixed overhead cost element in accordance with the timetable implicit within the contract. Turnover is recognised on variations to the work scope from such contracts only after they have been agreed with the customer.

Work in progress on long-term contracts is stated at the value of turnover recognised (which includes, where appropriate, an element of profit) less provision for all known expected losses and is shown as amounts recoverable on contracts within debtors. Profit earned on long-term contracts is recognised when forecast profitability of the contract can be estimated with reasonable confidence.

Cash received on account of long-term contracts is deducted from amounts recoverable on contracts. Receipts in excess of amounts recoverable are shown as progress claims. Contract provisions in excess of amounts recoverable are included in accruals.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

1. ACCOUNTING POLICIES (CONTINUED)

e) Short-term contracts

Work in progress on short-term contracts is stated at the lower of cost and the proportion of sale price earned to date; cost includes materials, labour and overheads, allocated by reference to actual levels of activity.

Turnover is recognised as work progresses but profit is only recognised on completion of the work.

f) Leased assets

Rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

g) Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

h) Pension contributions

The cost of providing benefits under the Company's pension scheme is charged over the remaining working lives of the members. On the advice of an independent qualified actuary, contribution payments are made to ensure that the scheme's assets are sufficient to cover future liabilities. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

i) Foreign currencies

Foreign currency purchases are translated into sterling at the rates ruling or agreed contractually when they occurred. When acquired foreign currency is used to meet liabilities in that currency, then the translation to sterling is at the average rate of all previous acquisitions and uses of that currency.

2. TURNOVER

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT. Further description of turnover for long term contracts is to be found in Note 1(d)

In the opinion of the Directors, the classes of business in which the Company operates do not differ substantially from each other. No segmental analysis is therefore provided. All turnover is generated in the UK.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

3. OPERATING PROFIT

	31 December 2003 £'000	31 December 2002 £'000
a) Operating profit is stated after charging		
Depreciation	16,043	15,405
Operating lease rentals - hire of plant and machinery	258	1,009
- land & buildings	1,176	1,039
Current auditors' remuneration - audit services	157	150
Previous auditors' remuneration - audit services	15	45
Previous auditors' remuneration - non audit services	-	7
Directors' remuneration (note 3b)	444	387
Employee costs (note 3c)	153,660	123,120

Administration and distribution costs are included in cost of sales as they are recoverable under contractual terms with the Company's principal customer.

	31 December 2003 £'000	31 December 2002 £'000
b) Directors' remuneration:-		
Emoluments	444	387

Directors' emoluments include bonuses accrued in respect of the accounting period.

The remuneration of the highest paid director was £258,626 (2002 - £228,863).

Two directors are members of the group pension scheme (2002 - 2) and members of the executive pension scheme. Both schemes are defined benefit schemes.

The accrued pension of the highest paid director assuming no further service was £110,883 (31 December 2002 - £100,390).

The remuneration of executive directors is set by a committee of non-executive directors and includes a performance related bonus which depends upon pre set targets. Performance related bonuses are paid in the year after that in which they are earned.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

c) Employee costs

	31 December 2003 £'000	31 December 2002 £'000
Wages and salaries	135,489	114,246
Social security costs	9,557	8,339
Other pension costs	8,614	535
Total employee costs	<u>153,660</u>	<u>123,120</u>

	31 December 2003 Number	31 December 2002 Number
The average number of persons employed by or permanently seconded to the Group during the year was:-		
Industrial (weekly average)	2,462	2,589
Non Industrial (monthly average)	2,466	2,484
	<u>4,928</u>	<u>5,073</u>

d) Exceptional Items

The exceptional items consist of	31 December 2003 £'000	31 December 2002 £'000
Impairment of the value of the Frigate Refit Complex	-	2,750
Redundancy cost, primarily as a result of the decision to close an Exeter warehouse and workshop	-	2,500
	<u>-</u>	<u>5,250</u>

4. INTEREST

	31 December 2003 £'000	31 December 2002 £'000
Interest payable - on bank loans and overdrafts	(2,067)	(980)
Interest receivable - from group undertakings	779	76
- from others	33	238
	<u>(1,255)</u>	<u>(666)</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	31 December		31 December	
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
UK Corporation tax				
Current tax on income for the year	6,401		4,776	
Adjustments in respect of prior years	(4,511)		(299)	
Total current tax charge		1,890		4,477
Deferred tax (see note 12)				
Origination/reversal of timing differences	2,678		880	
Adjustments in respect of prior years	4,809		1,568	
Total deferred tax		7,487		2,448
Tax on profit on ordinary activities		<u>9,377</u>		<u>6,925</u>

The current tax charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

	2003	2002
	£'000s	£'000s
Profit on ordinary activities before tax	<u>29,436</u>	<u>19,675</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 30%)	8,830	5,903
<i>Effects of:</i>		
Expenses not deductible for tax purposes	272	56
Pension costs in excess of paid	1,381	(245)
Capital allowances for period in excess of depreciation	(4,059)	(880)
Utilisation of tax losses	(23)	(58)
Adjustments to tax charge in respect of previous periods	(4,511)	(299)
Total current tax charge (see above)	<u>1,890</u>	<u>4,477</u>

6. DIVIDENDS

	31 December	31 December
	2003	2002
	£'000	£'000
On Ordinary shares - interim paid	10,076	193
	<u>10,076</u>	<u>193</u>

The dividend payments equate to £1.8834 per Ordinary share (2002 - £0.0361)

No final dividend for the year ended 31 December 2003 has been proposed by the Directors (2002 - Nil).

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

7. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings	Plant and Machinery	Tools and Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2003	134,889	69,669	12,561	217,119
Additions	1,152	22,329	1,803	25,284
Disposals	(4)	(206)	-	(210)
At 31 December 2003	<u>136,037</u>	<u>91,792</u>	<u>14,364</u>	<u>242,193</u>
Depreciation				
At 1 January 2003	28,718	21,255	9,140	59,113
Charge for the year	3,775	10,022	2,246	16,043
Disposals	(2)	(206)	-	(208)
At 31 December 2003	<u>32,491</u>	<u>31,071</u>	<u>11,386</u>	<u>74,948</u>
Net book value				
At 31 December 2003	<u>103,546</u>	<u>60,721</u>	<u>2,978</u>	<u>167,245</u>
At 1 January 2003	<u>106,171</u>	<u>48,414</u>	<u>3,421</u>	<u>158,006</u>

8. STOCKS

	31 December 2003 £'000	31 December 2002 £'000
Stocks	4,596	3,838
Work in progress on short-term contracts	902	11,836
	<u>5,498</u>	<u>15,674</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

9. DEBTORS

	31 Dec 2003 £'000	31 Dec 2002 £'000
Amounts due within one year:		
Trade debtors	35,330	12,289
Amounts recoverable on contracts	7,650	14,833
Pension prepayment	405	405
VAT recoverable	1,030	3,689
Corporation Tax Debtor	7,179	-
Deferred tax asset	1,381	-
Prepayments and accrued income	2,757	2,594
Amounts due from group undertakings	9,306	9,717
	<u>65,038</u>	<u>43,527</u>
	31 Dec 2003 £'000	31 Dec 2002 £'000
Amounts due after more than one year:		
Pension prepayment	2,123	2,528
	<u>2,123</u>	<u>2,528</u>

Included within prepayments and accrued income is £2,528,000 (2002 - £2,933,000) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. This prepayment is being spread over the remaining service lives of the employees.

10. CREDITORS: amounts falling due within one year.

	2003 £'000	2002 £'000
Bank loans	11,200	5,600
Progress claims in excess of work in progress valuation	38,803	24,181
Trade creditors	5,347	21,939
Corporation tax payable	4,781	4,175
Other taxes and social security costs	3,587	3,475
Other creditors	1,500	11,011
Accruals	55,553	54,727
Deferred income	405	405
Amounts owed to group undertakings	3,187	3,055
	<u>124,363</u>	<u>128,568</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

11. CREDITORS: amounts falling due after more than one year.

	2003 £'000	2002 £'000
Bank loans	25,019	36,219
Advanced pension deductions	4,460	-
Deferred income	3,873	2,528
	<u>33,352</u>	<u>38,747</u>

Interest rates are based on LIBOR rates under term loans, revolving credit facilities and overdraft arrangements. The bank loan of £25,019,402 falling due after one year is repayable quarterly in equal instalments of £2,800,000. The bank loan is secured by a charge over DRDL book debts and a floating charge over certain other assets.

Deferred income falling due after more than one year consists of two amounts, £2,123k and £1,750k. The amount of £2,123k represents revenue from the Ministry of Defence, which will be released in line with the amortisation of the pension prepayment (see Note 9). The amount of £1,750k represents revenue from the Ministry of Defence to meet the costs of repairing the FRC roof.

12. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred Tax Liability

	2003 £'000	2002 £'000
As at 1 January	6,733	4,285
Charged to profit and loss account (see Note 5)	7,487	2,448
As at 31 December	<u>14,220</u>	<u>6,733</u>

	2003 £'000	2002 £'000
Disclosed as: Deferred tax asset	(1,382)	-
Deferred tax liability	15,602	6,733
	<u>14,220</u>	<u>6,733</u>

	2003 £'000	2002 £'000
The elements of deferred taxation are as follows:		
Difference between accumulated depreciation and amortisation and capital allowances	15,602	6,733
Pension contributions deducted in advance of paid	(1,382)	-
Deferred tax liability at the end of the period	<u>14,220</u>	<u>6,733</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

13. CALLED UP SHARE CAPITAL

Authorised

	31 December 2003 Number	31 December 2003 £'000	31 December 2002 Number	31 December 2002 £'000
Ordinary shares at £1 each	5,350,001	5,350	5,350,001	5,350
Special share of £1	1	-	1	-
	<u>5,350,002</u>	<u>5,350</u>	<u>5,350,002</u>	<u>5,350</u>

Allotted, called up and fully paid

	31 December 2003 Number	31 December 2003 £'000	31 December 2002 Number	31 December 2002 £'000
Ordinary shares at £1 each	5,350,001	5,350	5,350,001	5,350
Special share of £1	1	-	1	-
	<u>5,350,002</u>	<u>5,350</u>	<u>5,350,002</u>	<u>5,350</u>

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

**14. RECONCILIATION OF SHAREHOLDERS' FUNDS
AND MOVEMENTS ON RESERVES**

	Share Capital £'000	Profit and Loss Account £'000	Share Premium £'000	Total Shareholders' Funds £'000
Balance at 1 January 2003	5,350	27,583	32,700	65,633
Profit for year	-	20,059	-	20,059
Equity dividend paid	-	(10,076)	-	(10,076)
Balance at 31 December 2003	<u>5,350</u>	<u>37,566</u>	<u>32,700</u>	<u>75,616</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

15. PENSION SCHEME

The company has continued to account for pension costs in accordance with SSAP24 "Accounting for Pension Costs" and the disclosures in a) below are those required by that standard. Whilst the timetable for the full implementation of Financial Reporting Standard 17 (FRS 17) "Retirement Benefits" has been delayed by the Accounting Standards Board, the supplementary transitional disclosures it requires are included in b) below.

a) SSAP 24 Disclosures

The company operates a defined benefit pension plan. For employees at Devonport Royal Dockyard there is a defined benefit pension scheme ("The Main Scheme") which is funded by the payment of contributions to a fund administered by Devonport Royal Dockyard Pension Scheme. In addition, the Company also operates a defined benefit Executive Pension Scheme ("The Executive Scheme") to provide top up benefits to the Main Scheme for key executives which with effect from 1 January 2002 has been integrated into the Main Scheme.

In September 2002, DRDL entered into a contract with the Ministry of Defence to takeover the responsibility for providing pension benefits to employees of the MOD who were transferred as part of the agreement known as WSMI. These employees were accepted into the Main Scheme and were granted year-for-year credits in respect of their accrued service.

The latest actuarial assessments for the Main Scheme and The Executive Scheme was 31 March 2002. The actuarial method adopted was the projected unit credit method and the principal assumptions used were as follows:

Investment return	7% per annum
Salary increases	5.5% per annum
RPI increases	4% per annum
Dividend growth	4.5% per annum

The level of funding, being the actuarial value of assets expressed as a percentage of the benefits accrued to members after allowing for further salary increases was 109%. This assessment revealed that there was a surplus of £52 million. The market value of the assets of the schemes at the date of the assessment was £615 million.

The actuary recommended the following contribution rates:

Main Scheme - 3% of pensionable pay until 31 December 2005 (with effect from 1 January 2004 this recommendation was revised to 8% until 31 December 2005 to ameliorate the effect of adverse market conditions);

WSMI employees - 17.9% of pensionable pay;

Executive Scheme - 11 % of pensionable pay until at least 31 March 2007.

The results of the SSAP 24 calculations carried out by an independent qualified actuary indicate that the charge to the profit and loss account (excluding the Executive Pension Scheme) for the year to 31 December 2003 is £8.6m (2002: nil). In addition, employer contributions of £0.1m paid to the Executive Pension Scheme have been charged to the profit and loss account for the year to 31 December 2003.

The principal assumptions used for these calculations were, discount rate 6.45% per annum, salary growth 3.5% per annum and price inflation 2.25% per annum.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

15. PENSION SCHEME (CONTINUED)

b) FRS17 Disclosures

Additional disclosures regarding the Company's defined benefit pension scheme are required under the transitional provisions of FRS17 "Retirement Benefits" and these are set out below.

The actuarial valuation described above has been updated at 31 December 2003 by an independent qualified actuary using revised assumptions that are consistent with the requirements of FRS 17. Investments have been valued for this purpose at fair value.

The major assumptions used for the 31 December 2003 actuarial valuation were:

	31.12.2001	31.12.2002	31.12. 2003
Rate of increase in salaries	4.00%	3.50%	3.50%
Rate of increase in pensions in payment	2.50%	2.25%	2.50%
Discount rate	5.75%	5.40%	5.40%
Inflation assumption	2.50%	2.25%	2.50%

The fair value of assets in the scheme, the present value of the liabilities in the scheme and the expected rate of return at the balance sheet date of 31 December 2003 were:

	31.12.2001		31.12. 2002		31.12. 2003	
	%	£m	%	£m	%	£m
Equities	7.50	416.1	7.50	333.3	8.00	409.1
Bonds	5.25	183.1	4.75	195.8	4.90	206.1
Property	6.75	31.0	n/a	0.0	n/a	0.0
Cash and other	4.75	9.2	4.50	42.3	3.75	7.9
Total fair value of assets		639.4		571.4		623.1
Present value of scheme liabilities		570.6		648.7		687.3
(Deficit)/Surplus in the scheme		68.8		(77.3)		(64.2)
Less deferred tax credit/(charge)		(20.6)		23.2		19.2
Net pension (liability)/asset		48.2		(54.1)		(45.0)

The directors are of the opinion that it would not be appropriate to recognise the FRS 17 liability or asset in isolation because under its contractual agreements with the Ministry of Defence the company recovers the pension cost on a generally accepted accounting basis. Currently the SSAP 24 basis is being used for this purpose.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2003

15. PENSION SCHEME (CONTINUED)

	2003	2002
	£m	£m
Amount that would have been charged to operating profit		
Current Service Cost	17.6	16.3
Past Service Cost	-	(1.5)
Total Operating Charge	<u>17.6</u>	<u>14.8</u>
Amount that would have been included as other finance income		
Expected return on scheme assets	34.3	43.4
Interest on pension liabilities	(33.9)	(33.4)
Net return	<u>0.4</u>	<u>10.0</u>
Amount that would have been recognised in the statement of total recognised gains and losses (STRGL)		
Actual return in excess of expected return	52.6	(129.5)
Experience gains and losses	(2.9)	0.7
Change in assumptions	(23.3)	(12.5)
Actuarial gain or (loss) in statement of total recognised gains and losses	<u>26.4</u>	<u>(141.3)</u>
Movement in surplus before tax during year		
Surplus/(deficit) at the start of the year	(77.3)	68.8
Total operating charge	(17.6)	(14.8)
Contributions	3.9	0.0
Other finance income	0.4	10.0
Actuarial (loss)	26.4	(141.3)
Deficit at the end of the year	<u>(64.2)</u>	<u>(77.3)</u>
History of experience gains and losses		
Difference between actual and expected returns on assets amount	52.6	(129.5)
% of Scheme assets	8%	(23%)
Experience gains and losses on liabilities amount	(2.9)	0.7
% of Scheme liabilities	0%	0%
Total recognised in statement of total recognised gains and losses	26.4	(141.3)
% of Scheme liabilities	4%	(22%)
Balance Sheet presentation	2003	2002
	£m	£m
Net assets excluding pension net liability	71.2	67.8
Pension deficit	(45.0)	(54.1)
Net Assets including pension deficit	<u>26.2</u>	<u>13.7</u>
Reserves Note	2003	2002
	£m	£m
Profit and loss reserve excluding pension net liability	33.1	27.2
Pension deficit	(45.0)	(54.1)
Profit and loss reserve	<u>(11.9)</u>	<u>(26.9)</u>

DEVONPORT ROYAL DOCKYARD LIMITED
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for the year ended 31 December 2003

16. OTHER FINANCIAL COMMITMENTS

At 31 December 2003 the Company had a commitment under non-cancellable operating leases to pay in the future the following amounts:

Operating leases which expire:

	Land & Buildings	Other	Land & Buildings	Other
	2003	2003	2002	2002
	£'000	£'000	£'000	£'000
- Within one year	-	35	-	24
- In second to fifth year	1,329	603	335	121
- Thereafter	7,907	-	847	-
	<u>9,236</u>	<u>638</u>	<u>1,182</u>	<u>145</u>

At 31 December 2003, the Company had board approval to expend £5.8 million on fixed assets in future years. This has not been provided for in the accounts.

Under the Assets Sale Agreement with the Secretary of State for Defence the Company is committed to maintaining and replacing strategic assets subject to financial limitations. No provision for this has been made in the accounts.

17. PARENT UNDERTAKING

The Company's ultimate parent undertaking and the largest group in which the results of the company are consolidated is that headed by Halliburton Company incorporated in the state of Delaware, USA. The smallest group in which they are consolidated is that headed by DML. The consolidated accounts of this group are available to the public and may be obtained from Devonport Management Ltd, Devonport Royal Dockyard, Devonport, Plymouth PL1 4SG.

18. RELATED PARTY TRANSACTIONS

During the year the Company had the following transactions with related companies. All transactions are undertaken at normal commercial rates.

Party Name	Overall Controlling Party	Purchases From	Sales To	At 31 Dec. 2003	
		£'000	£'000	Creditor £'000	Debtor £'000
Kellogg Brown & Root Limited	Halliburton	7,494	-	213	-
Kellogg Brown & Root Projects Limited	Halliburton	(339)	-	-	-
Kellogg Brown & Root Services Limited	Halliburton	-	-	-	-
Kellogg Brown & Root UK Limited	Halliburton	(23)	-	-	-
Andover Controls Limited	Balfour Beatty	130	-	-	-
Brand Rex Limited	Balfour Beatty	-	-	-	-
Weir Valves & Controls UK Limited	Weir Group	66	-	-	-
Strachan & Henshaw Limited	Weir Group	2,752	208	-	-
Weir Pumps Limited	Weir Group	568	-	79	-
Girdlestone Pumps Limited	Weir Group	-	-	-	-
Weir Engineering Services Limited	Weir Group	-	-	-	-

The relationship is that the overall controlling party is a shareholder of both Devonport Management Limited and the companies referred to above.

19. CASH FLOW

The Company has taken advantage of the exemption under FRS 1 (revised) Cash Flow Statements not to prepare a cash flow statement as it is a wholly owned subsidiary of Devonport Management Limited, which prepares a consolidated cash flow and which includes the cash flows of the Company.