

DEVONPORT ROYAL DOCKYARD LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2002



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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	
	E Read	
	A Rose	
	I Boyd	
	C Mead	

Secretary: H W Warren

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

DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT
for the year ended 31 December 2002

The Directors submit their report and audited financial statements for the year ended 31 December 2002.

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 £12,750,000 (2001 - £16,592,000). Interim dividends of £193,000 were proposed during the year (2001 - £14,035,000) and no final dividend for the year ended 31 December 2002 has been proposed by the Directors (2001 - Nil).

Directors

The Directors who served throughout 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	
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 2002

Charitable Donations

The Company made charitable donations during the year amounting to £3,185 (2001 - £4,025).

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 2002 were 40.0 days (2001 - 24.6 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

KPMG LLP were appointed as auditors during the year to fill a casual vacancy. 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: 14/8/2003

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 2002 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: 28 August 2003

DEVONPORT ROYAL DOCKYARD LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2002

	Notes	31 Dec 2002 £'000	31 Dec 2002 £'000	31 Dec 2002 £'000	31 Dec 2001 £'000
		Before Exceptional Items	Exceptional Items (Note 3d)	After Exceptional Items	
Turnover	2	365,372	-	365,372	535,096
Cost of Sales		(339,781)	(5,250)	(345,031)	(512,052)
Operating Profit	3	25,591	(5,250)	20,341	23,044
Loss on disposal of tangible fixed assets		-	-	-	(520)
Net interest (payable)/receivable	4	(666)	-	(666)	481
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>24,925</u>	<u>(5,250)</u>	<u>19,675</u>	<u>23,005</u>
Taxation on profit on ordinary activities	5	(8,500)	1,575	(6,925)	(6,413)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	14	16,425	(3,675)	12,750	16,592
DIVIDENDS	6	(193)	-	(193)	(14,035)
RETAINED PROFIT for year		<u>16,232</u>	<u>(3,675)</u>	<u>12,557</u>	<u>2,557</u>

The accompanying notes on pages 9 to 22 are an integral part of this consolidated 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 SHEETS
as at 31 December 2002

		31 December 2002	31 December 2001
	Notes	£'000	£'000
FIXED ASSETS			
Tangible assets	7	158,006	88,877
		<u>158,006</u>	<u>88,877</u>
CURRENT ASSETS			
Stocks	8	15,674	11,983
Debtors:	9		
- falling due within one year		43,527	123,680
- falling due after more than one year		2,528	2,933
Cash at bank and in hand		19,946	-
		<u>81,675</u>	<u>138,596</u>
CREDITORS: amounts falling due within one year	10	(128,568)	(167,179)
NET CURRENT LIABILITIES		<u>(46,893)</u>	<u>(28,583)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		111,113	60,294
CREDITORS: amounts falling due after more than one year	11	(38,747)	(2,933)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(6,733)	(4,285)
NET ASSETS		<u><u>65,633</u></u>	<u><u>53,076</u></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	27,583	15,026
EQUITY SHAREHOLDERS' FUNDS		<u><u>65,633</u></u>	<u><u>53,076</u></u>

The accompanying notes on pages 9 to 22 are an integral part of these balance sheets.

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

14 August 2003

D.E. Gilbert

Director
D E GILBERT

H W Warren

Director
H W WARREN

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

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 except as noted below. The company has adopted FRS 19 "Deferred tax" in these financial statements. No change to the comparative figures has been required. 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 2002

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 2002

3. OPERATING PROFIT

	31 December 2002 £'000	31 December 2001 £'000
a) Operating profit is stated after charging		
Depreciation	15,405	9,255
Operating lease rentals - hire of plant and machinery	1,009	1,073
- land & buildings	1,039	600
Current auditors' remuneration - audit services	150	-
Previous auditors' remuneration - audit services	45	175
Previous auditors' remuneration - non audit services	7	146
Directors' remuneration (note 3b)	387	374
Employee costs (note 3c)	123,120	107,295

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 2002 £'000	31 December 2001 £'000
b) Directors' remuneration:-		
Emoluments	387	374

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

The remuneration of the highest paid director was £228,863 (2001 - £224,757).

Two directors are members of the group pension scheme (2001 - 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 £100,390 (31 December 2001 - £91,160).

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 2002

c) Employee costs

	31 December 2002 £'000	31 December 2001 £'000
Wages and salaries	114,246	99,617
Social security costs	8,339	7,515
Other pension costs	535	163
Total employee costs	<u>123,120</u>	<u>107,295</u>

	31 December 2002 Number	31 December 2001 Number
The average number of persons employed by or permanently seconded to the Group during the year was:-		
Industrial (weekly average)	2,589	2,070
Non Industrial (monthly average)	2,484	2,135
	<u>5,073</u>	<u>4,205</u>

d) Exceptional Items

The exceptional items consist of	31 December 2002 £'000	31 December 2001 £'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>5,250</u>	<u>-</u>

4. INTEREST

	31 December 2002 £'000	31 December 2001 £'000
Interest payable - on bank loans and overdrafts	(980)	(350)
Interest receivable - from group undertakings	76	788
- from others	238	43
	<u>(666)</u>	<u>481</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	31 December		31 December	
	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
UK Corporation tax				
Current tax on income for the year	4,776		6,016	
Adjustments in respect of prior years	<u>(299)</u>		<u>(288)</u>	
Total current tax charge		4,477		5,728
Deferred tax (see note 12)				
Origination/reversal of timing differences	880		803	
Adjustments in respect of prior years	<u>1,568</u>		<u>(118)</u>	
Total deferred tax		2,448		685
Tax on profit on ordinary activities		<u>6,925</u>		<u>6,413</u>

The current tax charge for the period is lower (2001: lower) than the standard rate of corporation tax in the UK (30%, 2001: 30%). The differences are explained below.

	2002	2001
	£'000s	£'000s
Profit on ordinary activities before tax	<u>19,675</u>	<u>23,005</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2001 30%)	5,903	6,902
<i>Effects of:</i>		
Expenses not deductible for tax purposes	56	43
Short term timing differences	(245)	(115)
Capital allowances for period in excess of depreciation	(880)	(814)
Utilisation of tax losses	(58)	-
Adjustments to tax charge in respect of previous periods	(299)	(288)
Total current tax charge (see above)	<u>4,477</u>	<u>5,728</u>

6. DIVIDENDS

	31 December	31 December
	2002	2001
	£'000	£'000
On Ordinary shares - interim paid	193	14,035
	<u>193</u>	<u>14,035</u>

The dividend payments equate to £0.0361 per Ordinary share (2001 - £2.4299)

No final dividend for the year ended 31 December 2002 has been proposed by the Directors (2001 - Nil).

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

7. TANGIBLE FIXED ASSETS

Group	Freehold Land and Buildings	Plant and Machinery	Tools and Equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2002	88,088	33,211	11,286	132,585
Additions	46,801	36,458	1,275	84,534
At 31 December 2002	<u>134,889</u>	<u>69,669</u>	<u>12,561</u>	<u>217,119</u>
Depreciation				
At 1 January 2002	22,183	14,707	6,818	43,708
Charge for the year - ordinary depreciation	3,785	6,548	2,322	12,655
- FRC impairment (3(d))	2,750	-	-	2,750
At 31 December 2002	<u>28,718</u>	<u>21,255</u>	<u>9,140</u>	<u>59,113</u>
Net book value				
At 31 December 2002	<u>106,171</u>	<u>48,414</u>	<u>3,421</u>	<u>158,006</u>
At 1 January 2002	<u>65,905</u>	<u>18,504</u>	<u>4,468</u>	<u>88,877</u>

8. STOCKS

	31 December 2002 £'000	31 December 2001 £'000
Stocks	3,838	10,161
Work in progress on short-term contracts	11,836	1,822
	<u>15,674</u>	<u>11,983</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

9. DEBTORS

	31 Dec 2002 £'000	31 Dec 2001 £'000
Amounts due within one year:		
Trade debtors	12,289	26,477
Amounts recoverable on contracts	14,833	87,044
Pension prepayment	405	405
VAT Recoverable	3,689	855
Prepayments and accrued income	2,594	3,832
Amounts due from group undertakings	9,717	5,067
	<u>43,527</u>	<u>123,680</u>
	31 Dec 2002 £'000	31 Dec 2001 £'000
Amounts due after more than one year:		
Pension prepayment	2,528	2,933
	<u>2,528</u>	<u>2,933</u>

Included within prepayments and accrued income is £2,933,000 (2001 - £3,338,000) 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.

	2002 £'000	2001 £'000
Bank overdraft	-	19,476
Bank loans	5,600	2,500
Progress claims in excess of work in progress valuation	24,181	4,265
Trade creditors	21,939	45,911
Corporation tax payable	4,175	4,281
Other taxes and social security costs	3,475	2,763
Other creditors	11,011	1,497
Accruals	54,727	83,398
Deferred Income	405	405
Amounts owed to group undertakings	3,055	2,683
	<u>128,568</u>	<u>167,179</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

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

	2002 £'000	2001 £'000
Bank loans	36,219	-
Deferred Income	2,528	2,933
	<u>38,747</u>	<u>2,933</u>

Interest rates are based on LIBOR rates under term loans, revolving credit facilities and overdraft arrangements. The bank loan of £36,219,402 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.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Company Deferred Tax Liability £,000
As at 1 January 2002	4,285
Charged to profit and loss account (see Note 5)	2,448
As at 31 December 2002	<u>6,733</u>

The elements of deferred taxation are as follows:

	2002 £'000	2001 £'000
Difference between accumulated depreciation and amortisation and capital allowances	<u>6,733</u>	<u>4,285</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

13. CALLED UP SHARE CAPITAL

Authorised

	31 December 2001 Number	31 December 2001 £'000	31 December 2000 Number	31 December 2000 £'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 2001 Number	31 December 2001 £'000	31 December 2000 Number	31 December 2000 £'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 2002	5,350	15,026	32,700	53,076
Profit for year	-	12,750	-	12,750
Equity dividend paid	-	(193)	-	(193)
Balance at 31 December 2002	<u>5,350</u>	<u>27,583</u>	<u>32,700</u>	<u>65,633</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

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 Group also operates a defined benefit Executive Pension Scheme ("The Executive Scheme") which was set up on 1 December 1993 to provide top up benefits to the Main Scheme for key executives. The Executive Scheme was separate from the Main Scheme and was governed by its own trust deed, rules and trustees, but with effect from 1 January 2002 the Executive Pension Scheme 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;
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 variation in cost, due to the surplus, is greater than the regular cost and therefore the Main Scheme pension cost for the year ended 31 December 2002 is nil.

No contributions have therefore been charged to the profit and loss accounts in respect of the Main Scheme for the year in accordance with the SSAP 24 recommendations, contributions paid have been included as a pension prepayment and disclosed in debtors.

The pension costs charged to the profit and loss account for the year to 31 December 2002 relate to the employer contributions to the Executive Pension Scheme where the actuary has recommended continued Company contributions at a rate of 11% of pensionable pay. In addition, the SSAP24 charge in respect of the WSMI employees has been calculated to be 15.5% of pensionable pay.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2002

15. PENSION SCHEME – GROUP (CONTINUED)

b) FRS17 Disclosures

Additional disclosures regarding the Group's defined benefit pension scheme are required under the transitional provisions of FRS17 "Retirement Benefits" and these are set out below. The disclosures relate to the second year of transitional provisions.

The actuarial valuation described above has been updated at 31 December 2002 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.

As at 31 December 2002 the past service transfer amount in respect of WSMI employees had not been received by the Main Scheme. The expected amount of the transfer payment and the value of the corresponding past service liabilities have been included in the figures below. As the transfer payment is expected to exceed the value of the past service liabilities (as measured on the assumptions set out below), the difference between the two has been taken as a negative past service cost (i.e. reducing the operating charge).

The major assumptions used for the 31 December 2002 actuarial valuation were:

	31 December 2002	31 December 2001
Rate of increase in salaries	3.50%	4.00%
Rate of increase in pensions in payment	2.25%	2.50%
Discount rate	5.40%	5.75%
Inflation assumption	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 2002 were:

	31 December 2002		31 December 2001	
	%	£m	%	£m
Equities	7.50	333.3	7.50	416.1
Bonds	4.75	195.8	5.25	183.1
Property	n/a	0.0	6.75	31.0
Cash and other	<u>4.50</u>	<u>42.3</u>	<u>4.75</u>	<u>9.2</u>
Total fair value of assets	<u>6.04</u>	571.4	<u>6.78</u>	639.4
Present value of scheme liabilities		<u>648.7</u>		<u>570.6</u>
(Deficit)/Surplus in the scheme		(77.3)		68.8
Less deferred tax credit/(charge)		<u>23.2</u>		<u>(20.6)</u>
Net pension (liability)/asset		<u>(54.1)</u>		<u>48.2</u>

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.

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15. PENSION SCHEME (CONTINUED)

	£m
Amount that would have been charged to operating profit	
Service Cost	16.3
Past Service Cost	(1.5)
Total Operating Profit	<u>14.8</u>
Amount that would have been included as other finance income	
Expected return on scheme assets	43.4
Interest on pension liabilities	(33.4)
Net return	<u>10.0</u>
Amount that would have been recognised in the statement of total recognised gains and losses (STRGL)	
Expected return in excess of actual return	(129.5)
Experience gains and losses	0.7
Change in financial assumptions	0.8
Change in demographic assumptions	(13.3)
Actuarial (loss) in statement of total recognised gains and losses	<u>(141.3)</u>
Movement in surplus before tax during year	
Surplus at the start of the year	68.8
Total operating charge	(14.8)
Contributions	0.0
Other finance income	10.0
Actuarial (loss)	(141.3)
Deficit at the end of the year	<u>(77.3)</u>
History of experience gains and losses	
Difference between actual and expected returns on assets amount	(129.5)
% of Scheme assets	(23%)
Experience gains and losses on liabilities amount	0.7
% of Scheme liabilities	0%

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16. OTHER FINANCIAL COMMITMENTS

At 31 December 2002 the Company had a commitment under non-cancellable operating leases to pay in the next year the following amounts:

Operating leases which expire:

	Land & Buildings	Other	Land & Buildings	Other
	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
- Within one year	-	24	-	744
- In second to fifth year	335	121	-	163
- Thereafter	847	-	1,038	-
	<u>1,182</u>	<u>145</u>	<u>1,038</u>	<u>907</u>

At 31 December 2002, the Company had board approval to expend £9.1 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 Group had the following transactions with related companies. All transactions are undertaken at normal commercial rates.

Party Name	Overall Controlling Party	Purchases	Sales	At 31 Dec. 2002	
		From	To	Creditor	Debtor
		£'000	£'000	£'000	£'000
Kellogg Brown & Root Limited	Halliburton	2,547	-	(139)	-
Kellogg Brown & Root Projects Limited	Halliburton	81	-	417	-
Kellogg Brown & Root Services Limited	Halliburton	-	2,200	-	-
Kellogg Brown & Root UK Limited	Halliburton	226	-	364	-
Andover Controls Limited	Balfour Beatty	325	-	67	-
Brand Rex Limited	Balfour Beatty	2	-	2	-
Darchem Engineering Limited	Weir Group	551	7	69	8
Weir Valves & Controls UK Limited	Weir Group	48	-	-	-
Strachan & Henshaw Limited	Weir Group	20,088	11,049	2,474	1,195
Weir Pumps Limited	Weir Group	381	-	-	-
Girdlestone Pumps Limited	Weir Group	102	-	-	-
Weir Engineering Services Limited	Weir Group	2	-	-	-

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.