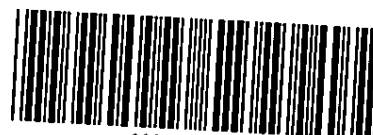


Devonport Royal Dockyard Limited  
Annual report  
for the 15 month period ended 31 March 2008

Registered Number 2077752

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Devonport Royal Dockyard Limited  
Annual Report  
for the 15 month period ended 31 March 2008

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# **Devonport Royal Dockyard Limited**

## **Company information**

### **Current directors**

A A Bethel CBE  
I S Urquhart  
Dr D E Gilbert CBE  
J Howie  
R Gillespie  
K Goodman  
R Hardy  
P Jones  
C Lockhart  
A Nicholls

### **Secretary**

J Greig (appointed 1 April 2008)  
H W Warren (resigned 4 April 2008)

### **Auditors**

PricewaterhouseCoopers LLP  
Princess Court  
23 Princess Court  
Plymouth  
PL1 2EX

### **Bankers**

Bank of Scotland plc  
Royal Bank of Scotland plc

### **Registered office**

Devonport Royal Dockyard  
Devonport  
Plymouth  
PL1 4SG

### **Registered number**

2077752

# **Devonport Royal Dockyard Limited**

## **Directors' report for the 15 month period ended 31 March 2008**

The directors present their report and the audited financial statements for the 15 month period ended 31 March 2008

### **Principal activity**

The Company maintains and refits Royal Navy warships and submarines, provides support services to the Ministry of Defence in relation to the management and operation of the Devonport Naval Base and provides increasingly, a range of other technical, operational and logistic services to the Ministry of Defence. The Company also engages in the construction of small craft and super yachts for non Ministry of Defence customers

### **Review of business**

On 28 June 2007 Babcock Marine (Devonport) Limited (formerly Devonport Management Limited), the parent company of Devonport Royal Dockyard Limited, was acquired by Babcock International Group PLC

The key projects on which the Company was engaged during the year were in the Submarines, Surface Ships, Naval Base, Defence Systems, Engineering Support and Yachts business units

Victorious, the second refit of the four Trident submarines, achieved its planned reactor and weapon system milestones and moved into the final afloat stages of the refit prior to its scheduled departure from Devonport in mid-2008. The last of the seven planned Trafalgar class submarine refits, on Triumph, also made good progress with the reactor refuelling activity completed and the major combat system upgrade progressing to programme. A maintenance period on HMS Trafalgar was completed and a similar work package on HMS Turbulent was started during the period

The refit on Type 22 frigate, HMS Cumberland, met a number of challenging schedule and financial targets when it was completed in late 2007, along side a busy programme of work on Devonport-based warships including the assault ship HMS Bulwark

Naval Base support work in the areas of engineering, waterfront services, estate management and logistics continued to meet the range of key performance indicators and, during the period, the contract was extended for a further 18 month period from September 2007

Work on the outfitting and completion of a major super yacht contract at Devonport made good progress towards a planned delivery in Summer 2008. The construction of a further large yacht at the Appledore facility started in the latter part of 2007

The Company has a number of Through Life Support contracts and further contracts for the assembly of specialised high mobility land vehicles for the British Army and the build of Tamar class lifeboats for the RNLI were also secured. The company's engineering and logistics consultancy businesses continued to perform well in their own diversified markets

Health and safety performance during the first 12 months of the reporting period demonstrated a marked improvement from previous levels, reflecting the concerted efforts across all parts of the business to focus on safety culture and performance. The rate of reportable accidents per 100,000 hours of work reduced to 0.43, some 70% of the previous year's figure and the lowest level ever achieved

### **Future developments**

Investment in Devonport's nuclear facilities is a key feature of the business. In 2007 the MoD awarded the Company a £150m contract to modernise the site's defuelling capability for Swiftsure and Trafalgar class submarines at the end of their lives. This upgraded facility is planned to begin operation in 2012 and it will then support the programme to address the growing submarine defuelling and disposal issue

## **Devonport Royal Dockyard Limited**

Longer term prospects in the UK submarine programme also developed positively. The expansion of the company's current support management contract to include the new Astute class developed as a prospect, in addition to success in securing key positions on the successor deterrent submarine programme. This is a first for the company at this stage of a major submarine programme.

The company, as part of the wider Babcock Marine Division, also engaged with the MoD on developing proposals for the future contracting arrangements that will apply to its full range of naval support activities at Devonport and elsewhere. These arrangements seek to generate significant performance improvements and savings that will be shared jointly with the MoD.

### **Principal risks and uncertainties**

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

The key business 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. Further discussion of these risk and uncertainties, in the context of the group as a whole, is provided on pages 26 and 27 of the annual report of Babcock International Group PLC, which does not form part of this report.

### **Key Performance Indicators**

The marine activities of the Group are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of Babcock Marine, the marine division of Babcock International Group PLC, which includes the Company, is discussed on pages 12 and 13 of the Group's annual report, which does not form part of this report.

### **Financial risk management**

Financial risk is managed in accordance with Group policies and procedures which are discussed on pages 27 and 32 of the annual report of Babcock International Group PLC, which does not form part of this report.

### **Results and dividends**

The Company's profit after tax for the 15 month period was £23,559,000 (12 months to December 2006 £31,944,000).

No dividends were proposed or paid during the period.

# Devonport Royal Dockyard Limited

## Directors

The directors who served during the whole of the period, unless otherwise stated, were as follows

Air Chief Marshall (Retired) Sir MD Pledger KCB OBE AFC (resigned 28 June 2007)

Dr DE Gilbert CBE

H W Warren (resigned 4 April 2008)

B Stanski (resigned 28 June 2007)

D A M Dunbar (resigned 28 June 2007)

I P Tyler (resigned 28 June 2007)

A Mitchelson (resigned 28 June 2007)

A Rose (resigned 28 June 2007)

B C Liew (resigned 28 June 2007)

M Selway (resigned 28 June 2007)

A A Bethel CBE (appointed 28 June 2007)

P L Rogers (appointed 28 June 2007, resigned 16 April 2008)

W Tame (appointed 28 June 2007, resigned 16 April 2008)

I S Urquhart (appointed 28 June 2007)

J Howie (appointed 21 January 2008)

R Gillespie (appointed 16 April 2008)

K Goodman (appointed 16 April 2008)

R Hardy (appointed 4 April 2008)

P Jones (appointed 16 April 2008)

C Lockhart (appointed 16 April 2008)

A Nicholls (appointed 16 April 2008)

## Donations

The group made charitable donations during the 15 months amounting to £8,970 (2006 £3,955) No political contributions were made (2006 nil)

## Supplier 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 15 months to 31 March 2008 were 48.0 days (2006 35.8 days), based on the ratio of the average trade creditors during the period to the amount invoiced during the period by the 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

# Devonport Royal Dockyard Limited

## Employee involvement

The Company 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 Company also has a "sharing in success" scheme which provides an annual bonus, linked to the profit achieved during the finance 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.

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that 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. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the financial period ended 31 March 2008 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Provision of information to auditors

In the case of each of the persons who are directors at the time when the report is approved under section 234A, the following applies:

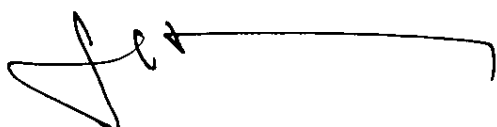
- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

## Auditors

During the period, KPMG LLP resigned as auditors of the company and PricewaterhouseCoopers LLP were subsequently appointed.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



Company Secretary – J Greig

25 June 2008

# **Devonport Royal Dockyard Limited**

## **Independent auditors' report to the members of Devonport Royal Dockyard Limited**

We have audited the financial statements of Devonport Royal Dockyard Limited for the 15 month period ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.



# Devonport Royal Dockyard Limited

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



**PricewaterhouseCoopers LLP**  
Chartered Accountants and Registered Auditors  
Plymouth

27 Dec 2008

# Devonport Royal Dockyard Limited

## Profit and loss account for the 15 month period ended 31 March 2008

	Note	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Turnover	2	575,928	429,224
Cost of sales		(541,183)	(397,688)
Operating profit before exceptional operating costs		34,745	31,536
Exceptional operating costs	3	(15,860)	-
<b>Operating profit</b>	3	<b>18,885</b>	<b>31,536</b>
Income from shares in subsidiary undertakings		1,250	1,000
Net interest (payable)/receivable	6	(354)	339
Net pension finance income	17	12,625	13,300
<b>Profit on ordinary activities before tax</b>		<b>32,406</b>	<b>46,175</b>
Tax on profit on ordinary activities	7	(8,847)	(14,231)
<b>Profit for the period</b>		<b>23,559</b>	<b>31,944</b>

All of the above figures, including comparatives, relate to continuing activities

## Statement of total recognised gains and losses for the 15 month period ended 31 March 2008

	Note	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Profit for the period		23,559	31,944
Actuarial gains recognised in the pension scheme	17	71,400	29,600
Deferred tax arising on gains in pension scheme	14	(19,992)	(8,880)
<b>Total recognised gains and losses relating to the period</b>		<b>74,967</b>	<b>52,664</b>

# Devonport Royal Dockyard Limited

## Balance sheet as at 31 March 2008

	Note	31 March 2008 £'000	31 December 2006 £'000
<b>Fixed assets</b>			
Tangible assets	9	139,057	153,583
<b>Current assets</b>			
Stocks	10	21,387	9,812
Debtors	11	169,413	97,722
Cash at bank and in hand		3,382	24,485
		194,182	132,019
<b>Creditors, amounts falling due within one year</b>	12	(189,927)	(147,929)
<b>Net current assets/(liabilities)</b>		4,255	(15,910)
<b>Total assets less current liabilities</b>		143,312	137,673
<b>Creditors, amounts falling due after more than one year</b>	13	(2,395)	(3,005)
<b>Provisions for liabilities and charges</b>	14	(13,087)	(18,675)
<b>Net assets excluding pension asset/(liability)</b>		127,830	115,993
Net pension asset/(liability)	17	39,960	(23,170)
<b>Net assets including pension asset/(liability)</b>		167,790	92,823
<b>Capital and reserves</b>			
Called up share capital	15	5,350	5,350
Share premium account	16	32,700	32,700
Profit and loss account	16	129,740	54,773
<b>Equity shareholders' funds</b>		167,790	92,823

The financial statements on pages 8 to 24 were approved by the board of directors on 25 June 2008 and were signed on its behalf by



Director - I S Urquhart

# Devonport Royal Dockyard Limited

## Notes to the financial statements for the 15 month period ended 31 March 2008

### 1 Accounting policies

#### Basis of accounting

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom and in accordance with the historical cost convention. The directors have considered the accounting policies and estimation techniques detailed below and consider that, in accordance with FRS 18 'Accounting Policies', they are the most appropriate for the company.

A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and provision for impairment. The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition. 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 – 10 years
Tools and equipment	3 – 4 years
Freehold land is not depreciated	

#### 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 cost expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

#### Long-term contracts

Contracts are deemed to be long term if contract execution extends for more than three months. Sales revenue is recognised by multiplying the contract value (inclusive of variations to work scope when agreed with the customer, but exclusive of contingency which may arise because of uncertain outturn from contractual conditions), by the percentage complete (which is derived from "costs incurred to date" divided by "forecast costs to complete (including contingency)" multiplied by 100).

Profit earned on long-term contracts is recognised when the forecast profitability of the contract can be estimated with reasonable confidence. Losses are taken in full, as soon as they become foreseeable with reasonable certainty.

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 losses and is shown under "amounts recoverable on contracts" within debtors.

Cash received on account during long-term contracts is deducted from the work in progress figure.

Receipts in excess of revenue recognised are shown as "progress claims in excess of work in progress valuation" within creditors.

# Devonport Royal Dockyard Limited

## 1 Accounting policies (continued)

### Short-term contracts

Short-term work in progress is valued at the lower of cost and net realisable value. Cost includes materials, labour and overheads based on normal levels of activity. Net realisable value is based on estimated selling price less additional costs to completion and disposal less progress billings. Profit is recognised on completion of the work.

### Finance and operating leases

Where fixed assets are financed by leasing agreements, which transfer to the company substantially all the benefits and risks of ownership, the assets are treated as if they had been purchased outright and are included in tangible fixed assets. The capital element of the leasing commitments is shown as an obligation under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital elements are applied to reduce the outstanding obligations and the interest element is charged against profit.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

### Taxation

The charge for taxation is based on the profit for the period 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 FRS 19.

### Post retirement benefits

The company operates a defined benefit contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

The Company also operates a pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company.

Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus / (deficit) is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

### Foreign currencies

All transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transactions. Assets and liabilities expressed in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

# Devonport Royal Dockyard Limited

## 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 included in note 1.

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.

## 3 Operating profit

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Operating profit is stated after charging		
Depreciation of tangible fixed assets (note 9)	19,760	14,935
Operating lease rentals		
- hire of plant and machinery	4,221	2,194
- land and buildings	2,139	1,339
Auditors' remuneration		
- audit	170	235
- taxation	25	16
- other services	27	-

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

### Exceptional operating costs

Included within operating profit are exceptional costs of £15,860,000 relating to a single, bespoke contract. The issues giving rise to these costs are specific to this contract and full provision has been made for the projected costs to complete the contract.

# Devonport Royal Dockyard Limited

## 4 Directors' remuneration

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Emoluments	2,132	625

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

The remuneration of the highest paid director was £1,243,191 (2006 £321,563)

The accrued pension of the highest paid director assuming no further service was £107,289 (2006 £95,785)

Three directors are members of the group pension scheme (2006 two) and members of the executive pension scheme. Both schemes are defined benefit schemes and were amalgamated together on 1 January 2002, as reported in the pension accounts for the year ended 31 March 2002

The remuneration of the 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 period after that in which they are earned.

## 5 Employees

The average number of employees of the company during the period was

By activity	15 months ended 31 March 2008 Number	Year ended 31 December 2006 Number
Industrial (weekly average)	2,132	2,315
Non Industrial (monthly average)	2,273	2,288
	4,405	4,603

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
The aggregate payroll costs of these persons was as follows		
Wages and salaries	174,676	133,251
Social security costs	14,289	10,646
Pension costs	26,954	21,967
<b>Total employee cost</b>	<b>215,919</b>	<b>165,864</b>

# Devonport Royal Dockyard Limited

## 6 Interest

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Interest payable		
- on bank loans and overdraft	(268)	(960)
- exchange rate losses	(1,097)	(34)
Interest receivable		
- from other group undertakings	240	954
- from others	771	379
<b>Net interest (payable)/receivable</b>	<b>(354)</b>	<b>339</b>

## 7 Tax on the profit for the period

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
<b>Current tax:</b>		
UK corporation tax on profits of the period	8,863	11,451
Adjustments in respect of prior period	94	13
<b>Total current tax charge</b>	<b>8,957</b>	<b>11,464</b>
<b>Deferred tax. (see note 14)</b>		
Origination and reversal of timing differences	(5,099)	1,493
Pension costs relief in excess of charge	5,571	1,274
Impact of change in UK tax rate	(582)	-
<b>Total deferred tax (credit)/charge</b>	<b>(110)</b>	<b>2,767</b>
<b>Tax charge for the period</b>	<b>8,847</b>	<b>14,231</b>



# Devonport Royal Dockyard Limited

## 7 Tax on the profit for the period (continued)

### Factors affecting charge for the period

The tax assessed for the period is lower (2006 lower) than the standard rate of corporation tax in the UK 30% (2006 30%) The differences are explained below

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Profit on ordinary activities before tax	32,406	46,175
Profit multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	9,722	13,853
Effects of		
Income not taxable	(375)	(300)
Expenses not deductible for tax purposes	91	63
Capital allowances for period in excess of depreciation	5,460	(942)
Depreciation on assets not allowable for capital allowances	158	61
Net (decrease)/increase in pension provisions not paid	(1,675)	2,416
Pension fund financing income	(4,068)	(3,690)
Research and development tax credit	(450)	-
Adjustments in respect of prior years	94	13
Utilisation of losses	-	(10)
<b>Total current tax charge for the period (see above)</b>	<b>8,957</b>	<b>11,464</b>

The Chancellor announced in 2007 that the full rate of corporation tax will be reduced from 30% to 28% from April 2008 This will reduce future corporation tax charges

## 8 Dividends

The aggregate amount of dividends comprises

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Interim dividend paid in respect of the current period	-	33
Aggregate amount of dividends paid in the financial period	-	33
Dividends in respect of the period/year recognised as a liability at the period end	-	10,000
	-	10,033

There were no dividends proposed and recognised as liabilities as at the period end (2006 £10,000,000)

# Devonport Royal Dockyard Limited

## 9 Tangible fixed assets

	Freehold land and buildings £000	Plant and machinery £'000	Fixtures, fittings and motor vehicles £'000	Assets under construction £'000	Total £'000
<b>Cost or valuation</b>					
At 1 January 2007	80,933	165,668	20,646	13,216	280,463
Additions	-	-	-	5,565	5,565
Transfer	5,667	4,689	3,861	(14,217)	-
Disposals	(1,938)	-	(763)	-	(2,701)
<b>At 31 March 2008</b>	<b>84,662</b>	<b>170,357</b>	<b>23,744</b>	<b>4,564</b>	<b>283,327</b>
<b>Depreciation</b>					
At 1 January 2007	42,415	65,488	18,977	-	126,880
Charge for the period	4,132	12,964	2,664	-	19,760
Disposals	(1,607)	-	(763)	-	(2,370)
<b>At 31 March 2008</b>	<b>44,940</b>	<b>78,452</b>	<b>20,878</b>	<b>-</b>	<b>144,270</b>
<b>Net book amount</b>					
<b>At 31 March 2008</b>	<b>39,722</b>	<b>91,905</b>	<b>2,866</b>	<b>4,564</b>	<b>139,057</b>
At 31 December 2006	38,518	100,180	1,669	13,216	153,583

The costs at 1 January 2007 have been reclassified to separate out the assets under construction

## 10 Stocks

	31 March 2008 £'000	31 December 2006 £'000
Stocks	13,334	8,685
Work in progress	8,053	1,127
	<b>21,387</b>	<b>9,812</b>

## 11 Debtors

	31 March 2008 £'000	31 December 2006 £'000
Trade debtors	27,375	8,341
Amount recoverable on contracts	63,886	54,266
Prepayments and accrued income	4,736	4,586
VAT recoverable	82	3,074
Amount due from group undertakings	73,334	27,455
	<b>169,413</b>	<b>97,722</b>

# Devonport Royal Dockyard Limited

## 12 Creditors: amounts falling due within one year

	31 March 2008 £'000	31 December 2006 £'000
Bank loan (secured – see below)	-	8,804
Bank overdraft (unsecured)	15,489	-
Progress claims in excess of work in progress valuation	79,587	62,840
Trade creditor	34,809	28,880
Corporation tax payable	6,327	5,475
Other taxes and social security cost	5,555	6,101
Accruals	33,661	25,789
Deferred income	4,680	-
Amount owed to group undertakings	6,419	5,624
Other creditors	3,400	4,416
	<b>189,927</b>	<b>147,929</b>

Interest rate on the bank loan was based on LIBOR

The 2006 bank loan was secured by a charge over book debts and a floating charge over certain other assets. The loan was repaid during 2007.

## 13 Creditors: amounts falling due after more than one year

	31 March 2008 £'000	31 December 2006 £'000
Bank loan – all repayable within 2 to 5 years	-	406
Deferred income	2,395	2,599
	<b>2,395</b>	<b>3,005</b>

The 2006 bank loan was repaid during 2007.

Deferred income falling due after more than one year of £2,395,000 (2006: £2,599,000) represents revenue deferred to meet the cost of renewing the Frigate Refit Complex roof.

# Devonport Royal Dockyard Limited

## 14 Provisions for liabilities and charges

	15 months ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
<b>Deferred taxation</b>		
At 1 January 2007	8,745	(2,902)
Charged to profit and loss account (see note 7)	472	2,767
Charged to statement of total recognised gains and losses in respect of pension liability	19,992	8,880
Impact of change in UK tax rate	(582)	-
<b>At 31 March 2008</b>	<b>28,627</b>	<b>8,745</b>
Disclosed as	£'000	£'000
Deferred tax asset	-	(9,930)
Deferred tax liability	28,627	18,675
	28,627	8,745
Deferred taxation in the financial statements is as follows	£'000	£'000
Difference between accumulated depreciation and capital allowances	14,588	21,091
Deferred tax benefit in advance of pension contributions paid	(1,501)	(2,416)
	13,087	18,675
Liability/(asset) in respect of pension scheme surplus/(liability) (see note 17)	15,540	(9,930)
	28,627	8,745

# Devonport Royal Dockyard Limited

## 15 Called up share capital

	31 March 2008 Number	31 March 2008 £'000	31 December 2006 Number	31 December 2006 £'000
<b>Authorised</b>				
At beginning and end of the period				
Ordinary shares of £1 each	5,350,001	5,350	5,350,001	5,350
Special shares of £1 each	1	-	1	-
	<b>5,350,002</b>	<b>5,350</b>	<b>5,350,002</b>	<b>5,350</b>
<b>Allotted, called up and fully paid</b>				
Ordinary shares of £1 each	5,350,001	5,350	5,350,001	5,350
Special shares of £1 each	1	-	1	-
	<b>5,350,002</b>	<b>5,350</b>	<b>5,350,002</b>	<b>5,350</b>

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 the other respects both classes of shares rank pari passu.

## 16 Reconciliation of shareholders' funds and movement on reserves

	Share capital £'000	Profit and loss account £'000	Share premium account £'000	Total shareholders' funds £'000
At 1 January 2007	5,350	54,773	32,700	92,823
Profit for the 15 month period	-	23,559	-	23,559
Actuarial gains shown in the statement of total recognised gains and losses	-	71,400	-	71,400
Movement on deferred tax relating to pension scheme	-	(19,992)	-	(19,992)
<b>At 31 March 2008</b>	<b>5,350</b>	<b>129,740</b>	<b>32,700</b>	<b>167,790</b>

# Devonport Royal Dockyard Limited

## 17 Pension scheme

The Company accounts for pension costs in accordance with Financial Reporting Standard 17 (FRS 17) "Retirement Benefits"

For defined benefit schemes, the actuarial valuation has been updated at 31 March 2008 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 actuarial valuation for the following period ended on the dates below were

Major assumptions	31 March 2008	31 December 2006	31 December 2005
Rate of increase in pay	4.5%	3.8%	3.1%
Rate of increase in pension payment	3.5%	2.8%	2.6%
Discount rate	6.9%	5.1%	4.8%
Inflation	3.5%	2.8%	2.6%

The mortality assumptions adopted at 31 March 2008 reflect a life expectancy of 24.2 years (2006 24.2 years) for male members in average health at age 60

The fair value of the 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 March 2008 were

### Analysis of assets and expected rates of return per annum\*

	31 March 2008 %	31 March 2008 £m	31 December 2006 %	31 December 2006 £m	31 December 2005 %	31 December 2005 £m
Equities	8.0%	389.6	7.50	588.9	7.50	648.5
Property	7.5%	42.6	-	-	-	-
Bonds	6.9%	232.0	4.70	244.4	4.40	119.8
Cash and other	6.0%	179.8	4.70	24.3	4.40	21.9
Total assets at market value		844.0		857.6		790.2
Present value of liabilities		(788.5)		(890.7)		(865.2)
<b>Pension asset/(liability)</b>		<b>55.5</b>		<b>(33.1)</b>		<b>(75.0)</b>
Deferred tax (liability)/asset		(15.5)		9.9		22.5
<b>Net pension asset/(liability)</b>		<b>40.00</b>		<b>(23.2)</b>		<b>(52.5)</b>

# Devonport Royal Dockyard Limited

## 17 Pension scheme (continued)

<b>Analysis of amount charged to operating profit</b>	<b>15 months ended 31 March 2008 £m</b>	<b>Year ended 31 December 2006 £m</b>
Current service cost	25.7	22.3
Total operating charge	25.7	22.3

<b>Analysis of amount credited to other finance income</b>	<b>15 months ended 31 March 2008 £m</b>	<b>Year ended 31 December 2006 £m</b>
Expected return on assets	73.0	54.7
Interest on liabilities	(60.4)	(41.4)
Other finance income	12.6	13.3

<b>Analysis of amount included in statement of total recognised gains and losses</b>	<b>15 months ended 31 March 2008 £m</b>	<b>Year ended 31 December 2006 £m</b>
Actual return less expected return on assets	1.6	17.5
Experience gains and losses	150.3	0.7
Changes in assumptions	(80.5)	11.4
Actuarial gain in the statement of total recognised gains and losses	71.4	29.6

<b>Movement in pension liability during the period</b>	<b>15 months ended 31 March 2008 £m</b>	<b>Year ended 31 December 2006 £m</b>
Pension liability at beginning of period	(33.1)	(75.0)
Current service cost	(25.7)	(22.3)
Contributions	30.3	16.3
Exceptional contribution	-	5.0
Other finance income	12.6	13.3
Actuarial gain	71.4	29.6
Pension asset/(liability) at end of period	55.5	(33.1)

# Devonport Royal Dockyard Limited

## 17 Pension scheme (continued)

Analysis of experience gains and losses	2008	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets					
Amount (£m)	1 6	17 5	78 3	15 9	52 6
Percentage of assets	-	2%	10%	2%	8%
Experience gains and losses on liabilities					
Amount (£m)	150.3	0 7	11 1	(0 9)	(2 9)
Percentage of the present value of liabilities	19%	-	1%	-	-
Total amount included in the statement of total recognised gains and losses					
Amount (£m)	71.4	29 6	25 6	(26 2)	26 4
Percentage of the present value of liabilities	9%	3%	3%	(3%)	4%

The Company operates a defined contribution pension scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £193,000 (2006 £23,000). The amount included in creditors at the year end in respect of this scheme was £2,000 (2006 £7,000).

## 18 Contingent liabilities

At the period end, the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £375 million provided to certain group companies.

Litigation is being considered relating to a dispute with a contractor in respect of maintenance works completed. Management consider that, given the early stages of such a potential claim, it is not possible to estimate with any certainty the probable financial effect in terms of either amounts recoverable from the contractor or rectification works required at a future date or as to timing.

## 19 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	31 March 2008		31 December 2006	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire				
Within one year	1,196	-	-	908
In second to fifth years inclusive	-	1,301	-	146
In more than five years	393	-	1,331	-
	1,589	1,301	1,331	1,054



# Devonport Royal Dockyard Limited

## 20 Other commitments

At 31 March 2008 the company had committed, but not spent, £0.7 million (2006: £1.3 million) on fixed assets. This has not been provided for in the financial statements.

Under the Assets Sale Agreement with the Secretary of State for Defence the group is committed to maintaining and replacing strategic assets subject to financial limitations. No provision for this has been made in the accounts as any costs are reimbursed by the Secretary of State for Defence.

The company has issued a Bank Guarantee to a customer in respect of a contract for £8,463,000.

## 21 Related parties

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

15 month period ended 31 March 2008

Party Name	Overall controlling party	Purchases from £'000	Sales to £'000	At 31 March 2008 Creditor £'000	Debtor £'000
Kellogg Brown & Root Limited	Halliburton	7,006	637	-	-
Kellogg Brown & Root Services Inc	Halliburton	1,209	114	-	-
Weir Valves & Controls UK Ltd	Weir Group	238	-	1	-
Strachan & Henshaw Limited	Weir Group	1,219	5	-	-
Weir Pumps Limited	Weir Group	100	-	-	-
Weir Engineering Services Ltd	Weir Group	489	-	-	-
Weir Services Limited	Weir Group	2,664	-	175	-
Weir Canada Inc	Weir Group	-	1	-	-

Year ended 31 December 2006

Party Name	Overall controlling party	Purchases from £'000	Sales to £'000	At 31 December 2006 Creditor £'000	Debtor £'000
Kellogg Brown & Root Limited	Halliburton	126	1,252	-	219
Kellogg Brown & Root Services Inc	Halliburton	-	7	-	-
Weir Valves & Controls UK Ltd	Weir Group	96	-	2	-
Strachan & Henshaw Limited	Weir Group	512	1	304	262
Weir Pumps Limited	Weir Group	92	-	8	-
Weir Engineering Services Ltd	Weir Group	423	-	192	-
Weir Services Limited	Weir Group	145	-	-	-
Weir Canada Inc	Weir Group	-	1	-	-

# **Devonport Royal Dockyard Limited**

## **21 Related parties (continued)**

The relationship is that the overall controlling party was a shareholder of both Babcock Marine (Devonport) Limited (formerly Devonport Management Limited) and the Companies referred to above until 28 June 2007

From 28 June 2007 onwards the company has taken advantage of the exemption under FRS 8 'related parties' not to disclose related party transactions with group members as it is wholly owned subsidiary of Babcock International Group plc

## **22 Parent undertaking**

The company's immediate parent company is Babcock Marine (Devonport) Limited and the ultimate controlling company is Babcock International Group PLC Both companies are registered in England and Wales The only group in which the results of the companies are consolidated is that headed by Babcock International Group PLC

Copies of the Babcock International Group PLC accounts are available from the following address

Company Secretary  
Babcock International Group PLC  
2 Cavendish Square, London W1G 0PX

Prior to 28 June 2007 the company's ultimate parent was Halliburton Company, incorporated in the state of Delaware USA

## **23 Fair value of assets and liabilities**

At 31 December 2006 the company had derivative financial instruments that it had not recognised at fair values These consisted of contracts to purchase US dollars at agreed future dates at agreed exchange rates At 31 March 2008, the company held no such contracts (2006 four)

## **24 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 Babcock International Group plc, which prepares a consolidated cash flow and which includes the cash flows of the Company