2077752

Devonport Royal Dockyard Limited

Annual report

for the year ended 31 March 2011

Devonport Royal Dockyard Limited

Annual report

for the year ended 31 March 2011

Contents

Devonport Royal Dockyard Limited

Company information

Current directors
A A Bethel CBE
I S Urquhart
Dr D E Gilbert CBE
P R Jones
C Lockhart
J Hall
T M R Pettigrew
M S Homer
J W Howie

Company secretary
J D T Greig

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Princess Street
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
02077752

Devonport Royal Dockyard Limited

Directors' report for the year ended 31 March 2011

The directors present their annual report and the audited financial statements of the company for the year ended 31 March 2011

Principal activities

The company maintains and refits Royal Navy warships and submarines, provides support services to the Ministry of Defence (MOD) in relation to the operation of the Devonport Naval Base and provides a range of other technical and engineering support services to both the MOD and commercial customers The classes of business in which the company operates are considered similar and are of an inter-related nature

Review of business

The company is part of the Marine and Technology Division of Babcock International Group PLC (Babcock) and has continued to participate in a wide range of initiatives that are intended to deliver key elements of the MOD's maritime change programme This programme seeks to deliver improvements in both cost effectiveness and performance across the joint industrial-MOD enterprise whilst ensuring that important naval design, build and support capabilities are retained

Following last year's conclusion of negotiations with the MOD on Babcock's 15 year Terms of Business Agreement ('ToBA') during March 2010, the contract has operated successfully over its first 12 months The committed levels of savings have been delivered and overall performance has met or exceeded requirements

The provision of fleet time maintenance to the nuclear-powered submarine flotilla based at Devonport continued, in parallel with the ongoing programme of submarine refit and refuelling work The refuelling refit of the third Trident missile deterrent submarine, HMS Vigilant, progressed satisfactorily with refuelling completed and completion and commissioning of a wide range of systems underway The refit is scheduled to complete in 2012

Devonport's nuclear facilities are undergoing a £150m project to upgrade the equipment used to remove used fuel from attack submarines when they reach the end of their operational lives The project will complete in approximately two years when the defuelling programme on end-of-life Swiftsure and Trafalgar class submarines will commence

The company also continued to provide fleet time support to the surface ship flotilla based at Devonport and to support a continuous programme of warship refit and upgrade projects Docking periods were completed on Type 23 frigate HMS Westminster and the amphibious assault ship HMS Bulwark This latter project involved an especially large programme of upgrades and alterations during its nine month duration A number of other Fleet Time Support Periods on surface ships were also carried out

Throughout the year the company progressed a number of equipment-related 'through life' engineering support contracts with the MOD, using its established facilities and the engineering skill base of its employees The company also continued to manage the provision of submarine configuration management, in-service performance and other support services to the MOD across the entire UK nuclear-powered submarine flotilla

Work to assemble a range of specialist high mobility vehicles against a variety of urgent operational requirements for use by the British Army in Afghanistan was completed during the year

Review of business (continued)

As part of the multi-year plan to reduce its overhead cost base, integration of support service functions with other parts of Babcock's business at both divisional and group level is continuing The company is currently consulting on a small number of potential redundancies in its Information Services area as a result of these changes

The strategic focus on health and safety performance and culture continued throughout the year, managed by a joint team drawn from across the business with regular performance feedback to all employees The rate of reportable accidents per 100,000 hours of work during the reporting period was 0 21

Future developments
Following agreement of the strategically important ToBA with the MOD, the company's long term business relationship with the MOD and roles in connection with the Devonport site has continued to develop Work to rationalise the range of facilities and resources across the joint dockyard and naval base enterprise and to deliver savings is continuing

The company continues its active engagement in a number of pan-industry alliances with the MOD that will determine long term arrangements for delivering and supporting current and future classes of surface warships and submarines, including concept and assessment work on the planned successor deterrent submarine and new classes of surface warship

We remain confident that the company will continue to benefit from the strength of its relationship with the MOD The ToBA now provides an excellent basis on which to cement and develop the existing partnering arrangements with the MOD over future years, building on the long term commitments and the degree of visibility that it provides

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 39 to 45 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 consider 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 the Marine and Technology Division of Babcock International Group PLC of which the company forms part, is discussed on pages 18 to 23 and 25 to 26 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 39 to 45 and note 2 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 year was £46,163,000 (2010 £46,916,000)

No dividends were proposed or paid during the year (2010 £nil)

Directors

The directors who served during the whole of the year and up to the date of signing the financial statements, unless otherwise stated, were as follows

A A Bethel CBE
I S Urquhart
Dr D E Gilbert CBE
R K Gillespie (resigned 1 June 2011)
R A Hardy (resigned 14 April 2010)
P R Jones
C Lockhart
J Hall
T M R Pettigrew
M S Homer (appointed 14 April 2010)
J W Howie (appointed 1 June 2011)

Qualifying third party indemnity provisions

Under their respective Articles of Association, the directors of the company are, and were during the year to 31 March 2011, entitled to be indemnified by the company against liabilities and costs incurred in connection with the execution of their duties or the exercise of their powers, to the extent permitted by the Companies Act 2006

Donations

The company made charitable donations during the year amounting to £17,790 (2010 £17,803), consisting of one donation of £5,000 to the Royal Marines Memorial Garden No other individual contributions exceeded £2,000

No political contributions were made (2010 £nil)

Supplier payment policy

It is the company's policy to abide by terms of payment agreed with suppliers Trade creditors of the company at 31 March 2011 were equivalent to 35 9 days (2010 35 1 days)

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 company places considerable emphasis on maintaining good communications with 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, in addition to conducting a system of formal meetings with their managers to update them on current developments The company also operates a suggestions scheme, encouraging employees to put forward ideas with a view to reducing costs and improving efficiency

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure 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 418 of the Companies Act 2006 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/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the board

I S Urquhart
Director

22 June 2011

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

We have audited the financial statements of Devonport Royal Dockyard Limited for the year ended 31 March 2011 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the directors' responsibilities statement set out on page 5 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its profit for the year then ended,

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and

- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

Eugene McCann (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Plymouth

28 June 2011

Devonport Royal Dockyard Limited

Profit and loss account
for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Turnover	2	**522,012**	538,508
Cost of sales		**(472,964)**	(479,709)
Operating profit	3	**49,048**	58,799
Net interest receivable	6	**5,074**	2,582
Other finance income	17	**9,800**	10,000
Profit on ordinary activities before taxation		**63,922**	71,381
Tax on profit on ordinary activities	7	**(17,759)**	(24,465)
Profit for the financial year	15	**46,163**	46,916

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

There is no difference between the profit on ordinary activities before taxation and profit for the financial year stated above and their historical cost equivalents

Statement of total recognised gains and losses
for the year ended 31 March 2011

	Note	2011 £'000	2010 £'000
Profit for the period	15	**46,163**	46,916
Net actuarial gain/(loss) recognised in the pension scheme	17	**62,298**	(203,800)
Deferred tax arising on gain/(loss) in pension scheme	13	**(17,443)**	57,064
Deferred tax arising on change in rate of tax	13	**(866)**	-
Total recognised gains/(losses) relating to the year		**90,152**	(99,820)

Devonport Royal Dockyard Limited

Balance sheet as at 31 March 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	8	**124,598**	124,611
Current assets			
Stocks	9	**9,039**	13,496
Debtors	10	**255,999**	150,869
Cash at bank and in hand		**69,439**	70,608
		334,477	234,973
Creditors: amounts falling due within one year	11	**(252,769)**	(183,042)
Net current assets		**81,708**	51,931
Total assets less current liabilities		**206,306**	176,542
Creditors amounts falling due after more than one year	12	**(1,763)**	(1,884)
Provisions for liabilities	13	**(12,975)**	(13,849)
Net assets excluding pension liability		**191,568**	160,809
Net pension liability	17	**(32,047)**	(91,440)
Net assets including pension liability		**159,521**	69,369
Capital and reserves			
Called up share capital	14	**5,350**	5,350
Share premium account	15	**32,700**	32,700
Profit and loss account	15	**121,471**	31,319
Total shareholders' funds	16	**159,521**	69,369

The financial statements on pages 8 to 25 were approved by the board of directors on 22 June 2011 and were signed ~~on its~~ behalf by

I S Urquhart
Director

Registered Number 02077752

Devonport Royal Dockyard Limited

Notes to the financial statements for the year ended 31 March 2011

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

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of value added tax Turnover is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured The following specific recognition criteria must also be met before revenue is recognised

(a) Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable

(b) Sale of services
Revenue from services rendered is recognised by reference to the stage of completion of the transaction The provision of services over a long-term period are accounted for under the principles of construction contracts, and the revenue recognised as set out below

(c) Long-term service contracts
Revenue from long-term service contracts is recognised by reference to the stage of completion of the contract The stage of completion is determined according to the nature of the specific contract concerned Methods used to assess the stage of completion include incurred costs as a proportion of total costs, labour hours incurred or earned value of work performed Profit attributable to the contract activity is recognised if the final outcome of such contracts can be reliably assessed An expected loss on a contract is recognised immediately in the profit and loss account

Tangible assets

Tangible assets are stated at historic cost, net of depreciation and provision for impairment The cost of tangible 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
Fixtures and fittings and motor vehicles	3 – 4 years

Freehold land and assets under construction are not depreciated

Stock and work in progress

Stock is valued at the lower of cost and net realisable value Cost is determined on a first-in first-out method In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads Provision has been made, if necessary, for slow moving, obsolete and defective stock

Devonport Royal Dockyard Limited

1 Accounting policies (continued)

Contract accounting

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

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

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

Operating leases

Payments made under operating leases 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 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 FRS 19 'Deferred tax'

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

A deferred tax asset is only recognised when it is more likely than not that the asset will be recoverable in the foreseeable future out of suitable taxable profits from which the underlying timing difference can be deducted

Post retirement benefits

The company operates a defined 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, and presented on the face of the balance sheet net of the related deferred tax 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 and financial instruments

All transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transactions Monetary 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

1 Accounting policies (continued)

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments

The company uses forward foreign exchange contracts denominated in US dollars, Canadian dollars and Euros to manage exposure to fluctuations in foreign exchange rates At the balance sheet date contracts held would lead to a net gain of £265,000 based on the foreign exchange rates at 31 March 2011 These contracts will all crystallise by 2017

2 Turnover

In the opinion of the directors, the classes of business in which the company operates are similar and are inter-related in nature No segmental analysis is therefore provided All turnover is generated in the UK with the exception of £4,256,000 (2010 £2,184,000) generated in North America

3 Operating profit

Operating profit is stated after charging	**2011 £'000**	2010 £'000
Depreciation of tangible fixed assets (note 8)	**15,369**	14,094
Operating lease rentals		
- plant and machinery	**926**	1,934
- land and buildings	**1,327**	1,203
Auditors' remuneration		
- audit	**126**	194
- taxation	**-**	1

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

4 Directors' remuneration

	2011 £'000	2010 £'000
Emoluments	**828**	864

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

The remuneration of the highest paid director was £450,528 (2010 £503,195)

The accrued pension of the highest paid director assuming no further service was £67,500 (2010 £111,160)

As at 31 March 2011, two directors (2010 three) are members of the group pension scheme and of the executive pension scheme Both schemes are defined benefit schemes and were amalgamated together on 1 January 2002, as reported in the pension financial statements for the year ended 31 March 2002

Three directors participate in the group long term incentive plan and shares were received or receivable in the year

The above disclosures relate to four directors Of the remaining six directors that held office during the year

- Five directors of the company are also directors of the holding company or fellow subsidiaries and receive remuneration in respect of their services to those companies

- One director is paid through a fellow subsidiary but is not a director of that company Amounts recharged to the company in respect of this director amounted to £98,000 in the year He also participates in the group long term incentive plan and shares were received or receivable in the year

The remuneration of the executive directors includes a performance related bonus which depends upon pre-set targets Performance related bonuses are normally paid in the period after that in which they are earned

Devonport Royal Dockyard Limited

5 Employees

The average monthly number of employees, including executive directors, of the company during the year was

By activity	2011 Number	2010 Number
Operations	3,959	4,007
Administration	8	9
	3,967	4,016

The aggregate payroll costs of these persons was as follows	2011 £'000	2010 £'000
Wages and salaries	141,193	141,028
Social security costs	11,484	11,668
Pension costs (note 17)	21,003	13,564
Total employee cost	173,680	166,260

6 Net interest receivable

	2011 £'000	2010 £'000
Interest payable and similar charges		
- on bank loans and overdraft	(8)	(66)
- exchange rate losses	(24)	(31)
Interest receivable and similar income		
- from other group undertakings	3,012	1,701
- from others	2,094	978
Net interest receivable	5,074	2,582

7 Tax on profit on ordinary activities

	2011 £'000	2010 £'000
Current tax:		
UK corporation tax on profits	-	-
Group relief for consideration	**12,635**	9,957
Total current tax charge	**12,635**	9,957
Deferred tax (note 13).		
Origination and reversal of timing differences	**(1,290)**	(1,085)
Pension cost relief in excess of charge	**5,993**	10,498
Adjustments in respect of prior year	**1,419**	5,095
Change in rate of tax	**(998)**	-
Total deferred tax charge	**5,124**	14,508
Tax charge for the year	**17,759**	24,465

Factors affecting charge for the year

The tax assessed for the year is lower (2010 lower) than the standard rate of corporation tax in the UK 28% (2010 28%) The differences are explained below

	2011 £'000	2010 £'000
Profit on ordinary activities before taxation	**63,922**	71,381
Profit multiplied by standard rate of corporation tax in the UK of 28% (2010 28%)	**17,898**	19,986
Effects of		
Expenses not deductible for tax purposes	**75**	56
Depreciation for period in excess of capital allowances	**1,290**	1,085
Pension cost relief in excess of charge	**(5,993)**	(10,498)
Research and development tax credit	**(635)**	(672)
Total current tax charge for the year	**12,635**	9,957

A number of changes to the UK Corporation tax system were announced in the March 2011 Budget Statement The rate of corporation tax was reduced from 28% to 26% with effect from 1 April 2011 Legislation to reduce the main rate of corporation tax from 26% to 25% from 1 April 2012 is expected to be included in the Finance Act 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014 These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

Devonport Royal Dockyard Limited

8 Tangible assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and motor vehicles £'000	Assets under construction £'000	Total £'000
Cost					
At 1 April 2010	86,549	162,529	24,400	9,310	282,788
Additions	-	-	1,347	14,009	15,356
Transfers	-	8,618	3,904	(12,522)	-
Disposals	-	-	(264)	-	(264)
At 31 March 2011	**86,549**	**171,147**	**29,387**	**10,797**	**297,880**
Accumulated depreciation					
At 1 April 2010	51,129	85,675	21,373	-	158,177
Charge for the year	4,184	8,691	2,494	-	15,369
Disposals	-	-	(264)	-	(264)
At 31 March 2011	**55,313**	**94,366**	**23,603**	-	**173,282**
Net book amount					
At 31 March 2011	**31,236**	**76,781**	**5,784**	**10,797**	**124,598**
At 31 March 2010	35,420	76,854	3,027	9,310	124,611

9 Stocks

	2011 £'000	2010 £'000
Raw materials	**9,039**	13,496

10 Debtors

	2011 £'000	2010 £'000
Trade debtors	**21,159**	12,228
Amounts owed by group undertakings	**191,712**	90,119
Amounts recoverable on contracts	**30,642**	41,852
Value added tax recoverable	**2,516**	3,340
Corporation tax debtor – research and development credits	**723**	723
Other debtors	**2,490**	394
Prepayments and accrued income	**6,757**	2,213
	255,999	150,869

Amounts owed by group undertakings include a net £126 million (excluding interest) of loans to other group companies (2010 £61 million) £60 million (2010 £60 million) of the loans are interest bearing at the rate of six monthly LIBOR plus 4% The remaining balance is interest free Fixed repayment terms are not in place relating to either of these loans

11 Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank overdraft (unsecured)	**893**	694
Payments recovered on account	**97,661**	66,533
Trade creditors	**16,050**	13,003
Amounts owed to group undertakings	**47,513**	11,250
Group relief	**29,957**	17,322
Corporation tax payable	**5,393**	5,145
Other taxation and social security	**594**	2,861
Other creditors	**819**	819
Accruals	**53,889**	65,415
	252,769	183,042

12 Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Deferred income	**1,763**	1,884

Deferred income falling due after more than one year represents revenue deferred to meet the cost of renewing the Frigate Refit Complex roof

13 Provisions for liabilities

Deferred taxation	**2011 £'000**	2010 £'000
At 1 April 2010	**(21,711)**	20,845
Charged to profit and loss account (see note 7)	**5,124**	14,508
Debited/(credited) to statement of total recognised gains and losses in respect of pension liability	**17,443**	(57,064)
Debited to statement of total recognised gains and losses in respect of change in rate of tax	**866**	-
At 31 March 2011	**1,722**	(21,711)

Deferred taxation in the financial statements is as follows	**2011 £'000**	2010 £'000
Difference between accumulated depreciation and capital allowances, and other timing differences	**13,973**	13,849
Change in rate of tax	**(998)**	-
	12,975	13,849
Asset in respect of pension scheme deficit (see note 17)	**(11,253)**	(35,560)
	1,722	(21,711)

14 Called up share capital

	2011 Number	**2011 £'000**	2010 Number	2010 £'000
Authorised				
Ordinary shares of £1 each	**5,350,001**	**5,350**	5,350,001	5,350
Special share of £1 each	**1**	**-**	1	-
	5,350,002	**5,350**	5,350,002	5,350
Allotted and fully paid				
Ordinary shares of £1 each	**5,350,001**	**5,350**	5,350,001	5,350
Special share of £1 each	**1**	**-**	1	-
	5,350,002	**5,350**	5,350,002	5,350

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

Devonport Royal Dockyard Limited

15 Reserves

	Profit and loss account £'000	Share premium account £'000
At 1 April 2010	**31,319**	**32,700**
Profit for the financial year	**46,163**	-
Net actuarial gain shown in the statement of total recognised gains and losses	**62,298**	-
Movement on deferred tax relating to pension scheme	**(17,443)**	-
Movement on deferred tax relating to change in rate of tax	**(866)**	-
At 31 March 2011	**121,471**	**32,700**
Pension deficit	**32,047**	
Profit and loss account excluding pension deficit	**153,518**	

16 Reconciliation of movements in shareholders' funds

	2011 £'000	2010 £'000
Profit for the financial year	**46,163**	46,916
Net actuarial gain/(loss) shown in the statement of total recognised gains and losses	**62,298**	(203,800)
Movement on deferred tax relating to pension scheme	**(17,443)**	57,064
Movement on deferred tax relating to change in rate of tax	**(866)**	-
Net addition/(reduction) to shareholders' funds	**90,152**	(99,820)
Opening shareholders' funds	**69,369**	169,189
Closing shareholders' funds	**159,521**	69,369

Devonport Royal Dockyard Limited

17 Pension scheme

The company accounts for pension costs in accordance with FRS 17 'Retirement Benefits'

For defined benefit schemes, the actuarial valuation has been updated at 31 March 2011 by an independent qualified actuary using revised assumptions that are consistent with the requirements of FRS 17 The date of the last full actuarial valuation was 31 March 2008

Investments have been valued for this purpose at fair value

The major assumptions used for the actuarial valuation were

Major assumptions	**31 March 2011 %**	31 March 2010 %	31 March 2009 %
Rate of increase in pay	**3.1**	3 0	3 2
Rate of increase in pension payment	**2 8**	3 4	2 7
Discount rate	**5.6**	5 5	7 1
Inflation	**2.8**	3 4	2 7

The mortality assumptions used were

	2011 years	2010 years
Longevity at age 60 for current pensioners		
- Men	**25.6**	23 7
- Women	**28 5**	26 6
Longevity at age 60 for future pensioners		
- Men	**27.6**	25 7
- Women	**30.5**	28 6

Devonport Royal Dockyard Limited

17 Pension scheme (continued)

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 2011 were

Analysis of assets and expected rates of return per annum

	31 March 2011 %	**31 March 2011 £m**	31 March 2010 %	31 March 2010 £m
Equities	**8 7**	**387.1**	9 0	430 9
Property	**8.0**	**65.9**	8 0	37 7
Bonds	**5.3**	**133.8**	5 4	72 3
Cash and other	**5.7**	**348.3**	5 6	319 7
Total assets		**935.1**		860 6
Present market value of liabilities – funded		**(978.4)**		(987 6)
Pension liability		**(43 3)**		(127 0)
Deferred tax asset (note 13)		**11 3**		35 6
Net pension liability		**(32.0)**		(91 4)

All expected rates of return represent the group directors' best estimates of long term returns on the respective assets held at the year-end The expected rate of return on "Equities" is slightly lower than in 2010 and "Property" is unchanged from 2010 The expected rate of return on "Bonds" is a weighted average of the expected rate of return on the scheme's £106 6 million of corporate bonds/credit and £27 2 million of government bonds The expected returns on "Cash and other" is a weighted average of the expected rate of return on the Scheme's other assets, consisting of £390 7 million in LDI (liability driven investment), £16 4 million in cash waiting to be invested and a negative active position of £58 8 million in respect of the longevity swap that was entered into during 2010

The longevity swap has a negative balance sheet value of £58 8 million (2010 £81 2 million) This represents the scheme's commitment to pay funds to the counterparty over a 50 year period relative to the mortality assumptions currently used in the actuarial valuation of the Scheme The most recent mortality experience of the Scheme's members has shown that, on average, members are living longer in retirement than previously assumed The group directors have therefore strengthened the Scheme's mortality assumption for FRS17 purposes at 31 March 2011 This increase in assumed life expectancy has narrowed the gap between how long the company are assuming members will live on average and how long the counterparty to the swap are assuming members will live, thereby leading to a reduction in the "funding" position of the longevity swap, and an improved balance sheet value of £22 4 million

Scheme assets do not include any of Devonport Royal Dockyard Limited's own financial instruments, or any property occupied by Devonport Royal Dockyard Limited

The equity investments and bonds are valued at bid price

Actual return on assets	**2011 £m**	2010 £m
Expected return on pension scheme assets	**63.6**	57 1
Actuarial (loss)/gain on assets	**(5.5)**	167 8
	58.1	224 9

17 Pension scheme (continued)

Analysis of amount charged to operating profit	2011 £m	2010 £m
Current service cost	**20.1**	13 1
	20.1	13 1

Analysis of amount credited to other finance income	2011 £m	2010 £m
Expected return on assets	**63.6**	57 1
Interest on liabilities	**(53.8)**	(47 1)
	9.8	10 0

Analysis of amount included in statement of total recognised gains and losses ('STRGL')	2011 £m	2010 £m
Actuarial gain/(loss) recognised in the STRGL	**39.9**	(122 6)
Reimbursement right – longevity swap	**22.4**	(81 2)
	62.3	(203 8)
Cumulative actuarial (loss)/gain recognised in the STRGL at 1 April	**(151.0)**	52 8
Cumulative amounts recognised in the STRGL at 31 March	**(88 7)**	(151 0)

Reconciliation of present value of scheme liabilities	2011 £m	2010 £m
At 1 April	**987.6**	676 3
Current service cost	**20 1**	13 1
Interest cost	**53 8**	47 1
Employee contributions	**2.6**	3 0
Benefits paid	**(40.3)**	(42 3)
Actuarial (gain)/loss	**(45 4)**	290 4
At 31 March	**978 4**	987 6

Devonport Royal Dockyard Limited

17 Pension scheme (continued)

Reconciliation of fair value of scheme assets	2011 £m	2010 £m
At 1 April	**860.6**	718 3
Expected return on scheme assets	**63.6**	57 1
Actuarial (loss)/gain	**(5 5)**	167 8
Reimbursement right (longevity swap)	**22.4**	(81 2)
Benefits paid	**(40.3)**	(42 3)
Contributions paid by employer	**31.7**	37 9
Employee contributions	**2.6**	3 0
At 31 March	**935.1**	860 6

Amounts for current and previous four years	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Plan assets	**935.1**	860 6	718 3	844 0	857 6
Defined benefit obligation	**(978.4)**	(987 6)	(676 3)	(788 5)	(890 7)
(Deficit)/surplus	**(43.3)**	(127 0)	42 0	55 5	(33 1)
Experience adjustments on scheme assets					
Amount	**(5.5)**	167 8	(188 6)	(78 9)	17 5
Experience gains and losses on liabilities					
Amount	**11.0**	21 0	5 5	1 3	0 7
Total amount recognised in the statement of total recognised gains and losses					
Amount	**62.3**	(203 8)	(47 5)	71 4	29 6

The best estimate of the contribution expected to be paid by Devonport Royal Dockyard Limited to the Scheme over the next year is £17 7 million

The company operates a defined contribution pension scheme The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £895,000 (2010 £449,000) The amount included in creditors at the year end in respect of this scheme was £75,000 (2010 £48,000)

Devonport Royal Dockyard Limited

18 Contingent liabilities

At the year end, the company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £782 5 million (2010 £330 million) provided to certain group companies

In addition, the company at the financial year end had joint and several liability for drawn bank overdraft facilities of other group companies for the value of £2 4 million (2010 £2 3 million)

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

	2011		2010	
Operating leases which expire	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
Within one year	**980**	**347**	928	-
In second to fifth years inclusive	**-**	**330**	-	909
In more than five years	**406**	**-**	360	-
	1,386	**677**	1,288	909

20 Other commitments

At 31 March 2011 the company had committed, but not spent £7 2 million (2010 £0 5 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 financial statements as any costs are reimbursed by the Secretary of State for Defence

21 Related parties

The company has taken advantage of the exemption under FRS 8 'Related Party Disclosures' not to disclose related party transactions with group members as it is a wholly owned subsidiary of Babcock International Group PLC

During the year ended 31 March 2011 the company had no transactions or balances outstanding with related companies that fall outside the FRS 8 exemption criteria (2010 none)

22 Ultimate parent undertaking

The company's immediate parent company is Babcock Marine (Devonport) Limited and the ultimate parent 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 financial statements are available from the following address

Company Secretary
Babcock International Group PLC
33 Wigmore Street
London
W1U 1QX

23 Cash flow statement

The company has taken advantage of the exemption under FRS 1 (revised 1996) '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 statement and which includes the cash flows of the company