Devonport Royal Dockyard Limited

Annual report

for the year ended 31 March 2010

Registered Number 2077752

Devonport Royal Dockyard Limited

Annual Report

for the year ended 31 March 2010

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Devonport Royal Dockyard Limited

Company information

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

Secretary
J Greig

Auditors
PricewaterhouseCoopers LLP
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
2077752

Directors' report for the year ended 31 March 2010

The directors present their report and the audited financial statements for the year ended 31 March 2010

Principal activity

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

Review of business

The Company is part of the Marine Division of Babcock International Group PLC 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

Negotiations with the MoD on Babcock's Terms of Business Agreement ('ToBA'), designed to support the maritime change programme, were concluded successfully during March 2010 and the 15 year duration ToBA was signed This confirms Devonport's role as the UK's submarine refitting site and identifies Devonport as the future centre of excellence for the deep maintenance of major surface warships The ToBA also extends Babcock's management role in the Devonport naval base from 2013 to 2025

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 and refit of the attack submarine HMS Triumph was completed and the submarine commenced sea trials This is the last of the seven Trafalgar class submarines to undergo a refit The refuelling refit of the third Trident missile deterrent submarine, HMS Vigilant, also began during the year and progress achieved was excellent with all major milestones being met The submarine began its refuelling cycle at the end of the reporting period, with the refit 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 Design and procurement activities associated with this project continued to plan during the year The project will complete in late 2012 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 During the year docking periods were completed on Type 22 frigate HMS Chatham, Type 23 frigate HMS Westminster and the amphibious assault ship HMS Albion This latter project involved an especially large programme of upgrades and alterations during its nine month duration

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 also continued throughout the year

Review of business (continued)

The Company has progressed with the outfitting and finishing of its final superyacht design and construction project which is scheduled to complete during the next financial year Following completion of this project the Company will focus its resources and facilities on the growth of its core defence business

As part of the multi-year plan to reduce its overhead cost base, a reduction of 90 permanent posts was announced in the latter part of 2009 This was substantially achieved by the end of March 2010 through a combination of natural wastage, voluntary redundancies and reductions in agency employees

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 34

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 are now confirmed Clarity on the future shape and size of the naval base has also continued to improve and work to rationalise the range of facilities and resources across the joint dockyard and naval base enterprise will continue to progress This work is essential to the delivery of committed levels of future cost savings

Other long term prospects are developing positively The Company is actively engaged in pan-industry alliances with the MoD that determine 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

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 42 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 Division of Babcock International Group PLC of which the Company forms part, is discussed on pages 16, 20 and 24 to 27 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 44, 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 £46,916,000 (2009 £35,634,000)

No dividends were proposed or paid during the year (2009 nil)

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

Dr D E Gilbert CBE
A A Bethel CBE
I S Urquhart
J Howie (resigned 17 July 2009)
R Gillespie
K Goodman (resigned 28 July 2009)
R Hardy (resigned 14 April 2010)
P Jones
C Lockhart
J Hall
T M R Pettigrew (appointed 17 July 2009)
M Homer (appointed 14 April 2010)

Research and development
The Company commits resources to research and development to the extent management considers necessary for the evolution and growth of its business

Donations
The Company made charitable donations during the year amounting to £17,803 (2009 £13,030) No political contributions were made (2008 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 2010 were equivalent to 35 1 days (2009 38 5 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 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 operates a suggestions scheme, encouraging employees to put forward ideas with a view to reducing costs and improving efficiency

Devonport Royal Dockyard Limited

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 elected to prepare 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,
- 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

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 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

By order of the board

I S Urquhart
Director

23 June 2010

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 year ended 31 March 2010 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 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

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 2010 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

Devonport Royal Dockyard Limited

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

Simon Chapman

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

28 June 2010

Devonport Royal Dockyard Limited

Profit and loss account for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Turnover	2	**538,508**	526,490
Cost of sales		**(479,709)**	(487,635)
Operating profit before exceptional operating costs		**58,799**	38,855
Exceptional operating costs	3	**-**	(3,040)
Operating profit	3	**58,799**	35,815
Net interest receivable	6	**2,582**	2,063
Other finance income	17	**10,000**	6,900
Profit on ordinary activities before tax		**71,381**	44,778
Tax on profit on ordinary activities	7	**(24,465)**	(9,144)
Profit for the period	15	**46,916**	35,634

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

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

Statement of total recognised gains and losses for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Profit for the period	15	**46,916**	35,634
Net actuarial loss recognised in the pension scheme	17	**(203,800)**	(47,549)
Deferred tax arising on loss in pension scheme	13	**57,064**	13,314
Total recognised gains and losses relating to the period		**(99,820)**	1,399

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Balance sheet as at 31 March 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	8	**124,611**	126,884
Current assets			
Stocks	9	**13,496**	18,258
Debtors	10	**150,869**	186,618
Cash at bank and in hand		**70,608**	6,422
		234,973	211,298
Creditors: amounts falling due within one year	11	**(183,042)**	(187,874)
Net current assets		**51,931**	23,424
Total assets less current liabilities		**176,542**	150,308
Creditors: amounts falling due after more than one year	12	**(1,884)**	(2,274)
Provisions for liabilities	13	**(13,849)**	(9,085)
Net assets excluding pension (liability)/asset		**160,809**	138,949
Net pension (liability)/asset	17	**(91,440)**	30,240
Net assets including pension (liability)/asset		**69,369**	169,189
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	**31,319**	131,139
Equity shareholders' funds	16	**69,369**	169,189

The financial statements on pages 8 to 25 were approved by the board of directors on 23 June 2010 and were signed on its behalf by

I S Urquhart
Director

Registered Number 2077752

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Notes to the financial statements for the year ended 31 March 2010

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 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 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
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

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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 for 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 for 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 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

Deferred tax is determined using tax rates (and laws) that have been enacted, or substantially 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 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 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

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1 Accounting policies (continued)

Financial instruments

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 The contracts include sales of US$17,500,000 and CAD835,000 and purchases of US$15,851,000 and €198,000 This would lead to a net loss of £189,000 based on the foreign exchange rate at 31 March 2010 These contracts will crystallise in 2010 and 2011

2 Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT Further description of turnover 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 with the exception of £2,184,000 (2009 £951,000) generated in North America

3 Operating profit

Operating profit is stated after charging	**2010 £'000**	2009 £'000
Depreciation of tangible fixed assets (note 8)	**14,094**	15,195
Operating lease rentals		
- plant and machinery	**1,934**	1,699
- land and buildings	**1,203**	1,602
Auditors' remuneration		
- audit	**194**	148
- taxation	**1**	10
- other services	**-**	4

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

Exceptional operating costs

Included within operating profit are exceptional costs of £nil (2009 £3,040,000) relating to a single, bespoke contract In 2009, the issues giving rise to these costs were specific to this contract and provision was made for the projected costs to complete the contract

4 Directors' remuneration

	2010 £'000	2009 £'000
Emoluments	**864**	879

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

The remuneration of the highest paid director was £503,195 (2009 £427,250)

The accrued pension of the highest paid director assuming no further service was £111,160 (2009 £111,103)

Amounts paid in respect of compensation for loss of office total £nil (2009 £497,935)

As at 31 March 2010, three directors (2009 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 accounts 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 three directors Of the remaining eight directors that held office during the year

- Seven 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

5 Employees

The average monthly number of employees of the Company during the period was

By activity	2010 Number	2009 Number
Operations	**4,007**	4,271
Administration	**9**	8
	4,016	4,279

The aggregate payroll costs of these persons was as follows	2010 £'000	2009 £'000
Wages and salaries	**141,028**	147,492
Social security costs	**11,668**	10,949
Pension costs	**13,564**	14,170
Total employee cost	**166,260**	172,611

6 Net interest receivable

	2010 £'000	2009 £'000
Interest payable and similar charges		
- on bank loans and overdraft	**(66)**	(380)
- exchange rate losses	**(31)**	-
- other	-	(82)
Interest receivable and similar income		
- from other group undertakings	**1,701**	1,260
- from others	**978**	905
- exchange rate gains	-	360
Net interest receivable	**2,582**	2,063

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7 Tax on profit on ordinary activities

	2010 £'000	2009 £'000
Current tax:		
UK corporation tax on profits	-	-
Group relief for consideration	**9,957**	7,365
Adjustments in respect of prior period	-	(3,753)
Total current tax charge	**9,957**	3,612
Deferred tax: (see note 13)		
Origination and reversal of timing differences	**(1,085)**	(535)
Pension cost relief in excess of charge	**10,498**	5,193
Impact of change in UK tax rate	-	874
Adjustments in respect of prior period	**5,095**	-
Total deferred tax charge	**14,508**	5,532
Tax charge for the period	**24,465**	9,144

Factors affecting charge for the period

The tax assessed for the year is lower (2009 lower) than the standard rate of corporation tax in the UK 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**71,381**	44,778
Profit multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	**19,986**	12,538
Effects of		
Expenses not deductible for tax purposes	**56**	87
Capital allowances for period in excess of depreciation	**1,085**	535
Net decrease in pension provisions not paid	**(7,698)**	(3,863)
Pension fund financing income	**(2,800)**	(1,932)
Research and development tax credit	**(672)**	(3,753)
Total current tax charge for the period	**9,957**	3,612

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8 Tangible fixed assets

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings and motor vehicles £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At 1 April 2009	85,540	163,015	21,378	2,116	272,049
Additions	-	-	-	12,605	12,605
Transfers	1,388	1,001	3,022	(5,411)	-
Disposals	(379)	(1,487)	-	-	(1,866)
At 31 March 2010	**86,549**	**162,529**	**24,400**	**9,310**	**282,788**
Depreciation					
At 1 April 2009	47,929	78,076	19,160	-	145,165
Charge for the year	3,331	8,550	2,213	-	14,094
Disposals	(131)	(951)	-	-	(1,082)
At 31 March 2010	**51,129**	**85,675**	**21,373**	**-**	**158,177**
Net book amount					
At 31 March 2010	**35,420**	**76,854**	**3,027**	**9,310**	**124,611**
At 31 March 2009	37,611	84,939	2,218	2,116	126,884

9 Stocks

	2010 £'000	2009 £'000
Raw materials	**13,496**	16,515
Work in progress	**-**	1,743
	13,496	18,258

10 Debtors

	2010 £'000	2009 £'000
Trade debtors	**12,228**	14,321
Amounts owed by group undertakings	**90,119**	134,775
Amounts recoverable on contracts	**41,852**	27,431
VAT recoverable	**3,340**	1,062
Corporation tax debtor – R&D credits	**723**	3,753
Prepayments and accrued income	**2,213**	5,276
Other debtors	**394**	-
	150,869	186,618

Amounts owed by group undertakings include a net £61 million (excluding interest) of loans to other group companies (2009 £110 million) £60 million (2009 £50 million) of the loans are interest bearing at the rate of six monthly LIBOR plus 4% (2009 1%) 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

	2010 £'000	2009 £'000
Bank overdraft (unsecured)	**694**	3,567
Progress claims in excess of work in progress valuation	**66,533**	83,174
Trade creditors	**13,003**	20,361
Amounts owed to group undertakings	**11,250**	10,175
Group relief	**17,322**	7,365
Corporation tax payable	**5,145**	5,149
Other taxes and social security cost	**2,861**	4,292
Other creditors	**819**	641
Accruals	**65,415**	53,150
	183,042	187,874

12 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Deferred income	**1,884**	2,274

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

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13 Provisions for liabilities

Deferred taxation	2010 £'000	2009 £'000
At 1 April 2009	**20,845**	28,627
Charged to profit and loss account (see note 7)	**14,508**	5,532
Credited to statement of total recognised gains and losses in respect of pension liability	**(57,064)**	(13,314)
At 31 March 2010	**(21,711)**	20,845

Deferred taxation in the financial statements is as follows	£'000	£'000
Difference between accumulated depreciation and capital allowances	**13,845**	14,925
Deferred tax benefit in advance of pension contributions paid	**4**	(5,840)
	13,849	9,085
(Asset)/liability in respect of pension scheme (deficit)/surplus (see note 17)	**(35,560)**	11,760
	(21,711)	20,845

14 Called up share capital

	2010 Number	2010 £'000	2009 Number	2009 £'000
Authorised				
Ordinary shares of £1 each	**5,350,001**	**5,350**	5,350,001	5,350
Special shares of £1 each	**1**	**-**	1	-
	5,350,002	**5,350**	5,350,002	5,350
Allotted, called up and fully paid				
Ordinary shares of £1 each	**5,350,001**	**5,350**	5,350,001	5,350
Special shares 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

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15 Reserves

	Profit and loss account £'000	Share premium account £'000
At 1 April 2009	**131,139**	32,700
Profit for the year	**46,916**	-
Net actuarial loss shown in the statement of total recognised gains and losses	**(203,800)**	-
Movement on deferred tax relating to pension scheme	**57,064**	-
At 31 March 2010	**31,319**	**32,700**
Pension deficit	**91,440**	-
Profit and loss reserve excluding pension deficit	**122,759**	-

16 Reconciliation of shareholders' funds

	2010 £'000	2009 £'000
Profit for the financial year	**46,916**	35,634
Net actuarial loss shown in the statement of total recognised gains and losses	**(203,800)**	(47,549)
Movement on deferred tax relating to pension scheme	**57,064**	13,314
Net (reduction)/addition to shareholders' funds	**(99,820)**	1,399
Opening shareholders' funds	**169,189**	167,790
Closing shareholders' funds	**69,369**	169,189

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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 2010 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 2010**	31 March 2009	31 March 2008
Rate of increase in pay	**3.0%**	3 2%	4 5%
Rate of increase in pension payment	**3.4%**	2 7%	3 5%
Discount rate	**5.5%**	7 1%	6 9%
Inflation	**3.4%**	2 7%	3 5%

The mortality assumptions used were

	2010 years	2009 years
Longevity at age 60 for current pensioners		
- Men	**23.7**	23 7
- Women	**26.6**	26 6
Longevity at age 60 for future pensioners		
- Men	**25.7**	25 7
- Women	**28.6**	28 6

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 2010 were

17 Pension scheme (continued)

Analysis of assets and expected rates of return per annum:

	31 March 2010 %	31 March 2010 £m	31 March 2009 %	31 March 2009 £m
Equities	**9.0%**	**430.9**	9 0%	291 6
Property	**8.0%**	**37.7**	8 0%	35 8
Bonds	**5.4%**	**72.3**	7 1%	67 4
Cash and other	**5.6%**	**319.7**	7 1%	323 5
Total assets		**860.6**		718 3
Present market value of liabilities - Funded		**(987.6)**		(676 3)
Pension (liability)/asset		**(127.0)**		42 0
Deferred tax asset/(liability)		**35.6**		(11 8)
Net pension (liability)/asset		**(91.4)**		30 2

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" and "Property" are unchanged from 2009 The expected rate of return on "Bonds" is a weighted average of the expected rate of return on the scheme's £65 3 million of corporate bonds/credit and £7 0 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 £383 7 million in LDI (liability driven investment), £17 2 million in cash waiting to be invested and a negative active position of £81 2 million in respect of the longevity swap that was entered into during the year

Actions were taken in the year to attempt to reduce the risk associated with the pension liability in terms of capping the risk in longevity The longevity swap had a 'day one' negative balance sheet value of £81 2 million to the Company 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 schemes If the longevity of the scheme members improves, the initial negative value will decrease or, if the longevity does not improve, it will remain broadly at the current level There was no impact on the income statement as a result of this transaction

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	2010 £m	2009 £m
Expected return on pension scheme assets	**57 1**	61 1
Actuarial gain/(loss) on assets	**167.8**	(188 6)
	224 9	(127 5)

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17 Pension scheme (continued)

Analysis of amount charged to operating profit	2010 £m	2009 £m
Current service cost	**13 1**	15 3
Curtailment	**-**	(1 4)
	13.1	13 9

Analysis of amount credited to other finance income	2010 £m	2009 £m
Expected return on assets	**57.1**	61 1
Interest on liabilities	**(47 1)**	(54 2)
	10 0	6 9

Analysis of amount included in statement of total recognised gains and losses ('STRGL')	2010 £m	2009 £m
Actuarial loss recognised in the STRGL	**(122.6)**	(47 6)
Reimbursement right (longevity swap)	**(81 2)**	-
Cumulative actuarial gain recognised in the STRGL at 1 April	**52 8**	100 4
Cumulative amounts recognised in the STRGL at 31 March	**(151.0)**	52 8

Reconciliation of present value of scheme liabilities	2010 £m	2009 £m
At 1 April	**676.3**	788 5
Current service cost	**13.1**	15 3
Interest cost	**47.1**	54 2
Employee contributions	**3.0**	2 9
Benefits paid	**(42.3)**	(42 1)
Actuarial loss/(gain)	**290.4**	(141 1)
Curtailments and settlements	**-**	(1 4)
At 31 March	**987.6**	676 3

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17 Pension scheme (continued)

Reconciliation of fair value of scheme assets	**2010 £m**	2009 £m
At 1 April	**718.3**	844 0
Expected return on scheme assets	**57 1**	61 1
Actuarial gains/(losses)	**167.8**	(188 6)
Reimbursement right (longevity swap)	**(81.2)**	-
Benefits paid	**(42.3)**	(42 1)
Contributions paid by employer	**37 9**	41 0
Employee contributions	**3.0**	2 9
At 31 March	**860.6**	718 3

Amounts for current and previous four years	**2010 £m**	2009 £m	2008 £m	2006 £m	2005 £m
Plan assets	**860.6**	718 3	844 0	857 6	790 2
Defined benefit obligation	**(987.6)**	(676 3)	(788 5)	(890 7)	(865 2)
(Deficit)/surplus	**(127.0)**	42 0	55 5	(33 1)	(75 0)
Experience adjustments on scheme assets					
Amount	**167.8**	(188 6)	(78 9)	17 5	78 3
Experience gains and losses on liabilities					
Amount	**21.0**	5 5	1 3	0 7	11 1
Total amount recognised in the statement of total recognised gains and losses					
Amount (£m)	**(203.8)**	(47 5)	71 4	29 6	25 6

The best estimate of the contribution expected to be paid by Devonport Royal Dockyard Limited to the Scheme over the next year is £16 9 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 £449,000 (2009 £270,000) The amount included in creditors at the year end in respect of this scheme was £48,000 (2009 £nil)

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 £330 million (2009 £355 million) provided to certain Group companies

In addition, the Company at the period end had joint and several liability for drawn bank overdraft facilities of other Group companies for the value of £2 3 million (2009 £3 8 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

	2010		2009	
Operating leases which expire	**Land and buildings £'000**	**Other £'000**	Land and buildings £'000	Other £'000
Within one year	**928**	**-**	928	6
In second to fifth years inclusive	**-**	**909**	-	1,224
In more than five years	**360**	**-**	393	-
	1,288	**909**	1,321	1,230

20 Other commitments

At 31 March 2009 the Company had committed, but not spent £0 5 million (2009 £1 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 accounts as any costs are reimbursed by the Secretary of State for Defence

21 Related parties

During the year ended 31 March 2010 the Company had no transactions or balances outstanding with related companies that fall outside the FRS 8 exemption criteria (2009 None)

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 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 accounts are available from the following address

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

23 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