

2077752

DEVONPORT ROYAL DOCKYARD LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2004



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DEVONPORT ROYAL DOCKYARD LIMITED

DIRECTORS AND ADVISERS

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

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

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

Registered Office:	Devonport Royal Dockyard
	Devonport
	Plymouth
	PL1 4SG

Registered Number:	2077752
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DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT
for the year ended 31 December 2004

The Directors submit their report and audited financial statements for the year ended 31 December 2004.

Principal Activities, Business Review and Future Developments

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

Results and Dividends

The trading profit for the year after taxation was £22,382,000 (2003 - £20,059,000).

An interim dividend of £12,071,000 was paid (2003 - £10,076,000) and no final dividend for the year ended 31 December 2004 has been proposed by the Directors (2003 - Nil).

Directors

The Directors who served during the year were as follows:

A F Pryor CBE	Chairman
Dr D E Gilbert CBE	Chief Executive
H W Warren	Finance Director
D A M Dunbar	
I P Tyler	
B Stanski	
A Rose	
I Boyd	
C Mead	Resigned 13 th October 2004

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

Statement of Directors' Responsibilities for Financial Statements

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

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Board Committees

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

DEVONPORT ROYAL DOCKYARD LIMITED
DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2004

Charitable Donations

The Company made charitable donations during the year amounting to £9,439 (2003 - £5,299).

Creditor Payment Policy

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

Trade creditor days of the Company for the year ended 31 December 2004 were 37.5 days (2003 - 15.9 days), based on the ratio of the average Group trade creditors during the year to the amounts invoiced during the period by trade creditors.

Employment of Disabled Persons

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

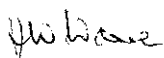
Employee Involvement

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

Auditors

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

BY ORDER OF THE BOARD



H W WARREN
Secretary

Date: 21/4/2005

Registered Address:

Devonport Royal Dockyard
Devonport
Plymouth
Devon
PL1 4SG

KPMG LLP

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

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

We have audited the financial statements on pages 7 to 22.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 7, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

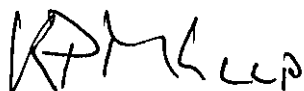
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2004 and of the profit of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG LLP
*Chartered Accountants
Registered Auditor*

Date: 04/05/05

DEVONPORT ROYAL DOCKYARD LIMITED
PROFIT AND LOSS ACCOUNT
for the year ended 31 December 2004

	Notes	31 December 2004	31 December 2003
		£'000	£'000
Turnover	2	386,925	371,416
Cost of Sales		(353,986)	(340,725)
Operating Profit	3	<u>32,939</u>	<u>30,691</u>
Net interest (payable)	4	(554)	(1,255)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>32,385</u>	<u>29,436</u>
Taxation on profit on ordinary activities	5	(10,003)	(9,377)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION	17	<u>22,382</u>	<u>20,059</u>
DIVIDENDS	6	(12,071)	(10,076)
RETAINED PROFIT for year		<u><u>10,311</u></u>	<u><u>9,983</u></u>

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

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

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

All activities relate to continuing activities.

DEVONPORT ROYAL DOCKYARD LIMITED
BALANCE SHEET
as at 31 December 2004

		31 December 2004	31 December 2003
	Notes	£'000	£'000
FIXED ASSETS			
Tangible assets	7	168,075	167,245
		<u>168,075</u>	<u>167,245</u>
CURRENT ASSETS			
Stocks	8	9,955	5,498
Debtors:	9		
- falling due within one year		75,461	65,038
- falling due after more than one year		1,718	2,123
Cash at bank and in hand		10,388	9,029
		<u>97,522</u>	<u>81,688</u>
CREDITORS: amounts falling due within one year	10	(134,109)	(124,363)
		<u>(36,587)</u>	<u>(42,675)</u>
NET CURRENT LIABILITIES			
		<u>(36,587)</u>	<u>(42,675)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		131,488	124,570
CREDITORS: amounts falling due after more than one year	11	(26,941)	(33,352)
PROVISIONS FOR LIABILITIES AND CHARGES	12	(18,620)	(15,602)
NET ASSETS		<u>85,927</u>	<u>75,616</u>
CAPITAL AND RESERVES			
Called up share capital	13	5,350	5,350
Share premium account	14	32,700	32,700
Profit and loss account	14	47,877	37,566
EQUITY SHAREHOLDERS' FUNDS		<u>85,927</u>	<u>75,616</u>

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

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

21/4/2005

 Director
D E GILBERT CBE

 Director
H W WARREN

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

1. ACCOUNTING POLICIES

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

a) Accounting convention and basis of consolidation

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

b) Tangible fixed assets

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

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

c) Stocks

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

d) Long Term Contracts

Contracts are deemed 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 workscope when agreed with the customer, but exclusive of contingency which may arise because of uncertain outturn or 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.

(e) 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.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

1. ACCOUNTING POLICIES (CONTINUED)

f) Leased assets

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

g) Taxation

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

h) Pension contributions

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

i) Foreign currencies

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

2. TURNOVER

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

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

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

3. OPERATING PROFIT

	31 December 2004 £'000	31 December 2003 £'000
a) Operating profit is stated after charging		
Depreciation	16,560	16,043
Operating lease rentals - hire of plant and machinery	1,179	258
- land & buildings	1,397	1,176
Current auditors' remuneration - audit services	218	157
Previous auditors' remuneration - audit services	-	15
Directors' remuneration (note 3b)	488	444
Employee costs (note 3c)	141,390	153,660

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

	31 December 2004 £'000	31 December 2003 £'000
b) Directors' remuneration:-		
Emoluments	488	444

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

The remuneration of the highest paid director was £288,380 (2003 - £258,626).

Two directors are members of the group pension scheme (2003 - 2) and members of the executive pension scheme. Both schemes are defined benefit schemes.

The accrued pension of the highest paid director assuming no further service was £124,801 (31 December 2003 - £110,883).

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

Information regarding directors' share options may be found under directors' share interests in the directors' report.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

c) Employee costs

	31 December 2004 £'000	31 December 2003 £'000
Wages and salaries	121,935	135,489
Social security costs	9,996	9,557
Other pension costs	9,459	8,614
Total employee costs	141,390	153,660

	31 December 2004 Number	31 December 2003 Number
The average number of persons employed by or permanently seconded to the Group during the year was:-		
Industrial (weekly average)	2,211	2,462
Non Industrial (monthly average)	2,346	2,466
	4,557	4,928

4. **INTEREST**

	31 December 2004 £'000	31 December 2003 £'000
Interest payable - on bank loans and overdrafts	(1,857)	(2,067)
Interest receivable - from group undertakings	928	779
- from others	375	33
	(554)	(1,255)

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	31 December		31 December	
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
UK Corporation tax				
Current tax on income for the year	6,985		6,401	
Adjustments in respect of prior years	-		(4,511)	
Total current tax charge		6,985		1,890
Deferred tax (see note 15)				
Origination/reversal of timing differences	3,018		2,678	
Adjustments in respect of prior years	-		4,809	
Total deferred tax		3,018		7,487
Tax on profit on ordinary activities		<u>10,003</u>		<u>9,377</u>

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK (30%, 2003: 30%). The differences are explained below.

	2004	2003
	£'000	£'000
Profit on ordinary activities before tax	<u>32,385</u>	<u>29,436</u>
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2003 30%)	9,715	8,830
<i>Effects of:</i>		
Expenses not deductible for tax purposes	75	62
Short term timing differences	-	-
Capital allowances for period in excess of depreciation	(3,018)	(4,060)
Depreciation on assets n/a for capital allowances	235	210
Net increase in pension provisions not paid	-	1,382
Utilisation of tax losses	(22)	(23)
Adjustments to tax charge in respect of previous periods	-	(4,511)
Total current tax charge (see above)	<u>6,985</u>	<u>1,890</u>

6. DIVIDENDS

	31 December	31 December
	2004	2003
	£'000	£'000
On Ordinary shares - interim paid	12,071	10,076
	<u>12,071</u>	<u>10,076</u>

The dividend payments equate to £1.8824 per Ordinary share (2003 - £1.8834)

No final dividend for the year ended 31 December 2004 has been proposed by the Directors (2003 - Nil).

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

7. TANGIBLE FIXED ASSETS

Group	Freehold Land and Buildings	Plant and Machinery	Fixtures & Fittings & Motor Vehs	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2004	136,037	91,792	14,364	242,193
Additions	1,234	13,633	2,523	17,390
At 31 December 2004	<u>137,271</u>	<u>105,425</u>	<u>16,887</u>	<u>259,583</u>
Depreciation				
At 1 January 2004	32,491	31,071	11,386	74,948
Charge for the year	3,902	10,317	2,341	16,560
At 31 December 2004	<u>36,393</u>	<u>41,388</u>	<u>13,727</u>	<u>91,508</u>
Net book value				
At 31 December 2004	<u>100,878</u>	<u>64,037</u>	<u>3,160</u>	<u>168,075</u>
At 1 January 2004	<u>103,546</u>	<u>60,721</u>	<u>2,978</u>	<u>167,245</u>

8. STOCKS

	Group 31 December 2004 £'000	Group 31 December 2003 £'000
Stocks	6,559	4,596
Work in progress on short-term contracts	3,396	902
	<u>9,955</u>	<u>5,498</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

9. DEBTORS

	2004 £'000	2003 £'000
Amounts due within one year:		
Trade debtors	15,229	35,330
Fixed asset in course of disposal	4,500	-
Amounts recoverable on contracts	20,718	7,649
Prepayments and accrued income	3,657	2,757
Pension prepayment	405	405
VAT recoverable	4,138	1,030
Corporation Tax Debtor	-	7,179
Deferred tax asset	1,382	1,382
Amounts due from group undertakings	25,432	9,306
	<u>75,461</u>	<u>65,038</u>

	2004 £'000	2003 £'000
Amounts due after more than one year:		
Pension prepayment	<u>1,718</u>	<u>2,123</u>

Included within debtors is £2,123,000 (2003 - £2,528,000) in respect of pension contribution payments made in advance of their recognition in the profit and loss account. This prepayment is being spread over the remaining service lives of the employees.

10. CREDITORS: amounts falling due within one year.

	2004 £'000	2003 £'000
Bank loans	8,804	11,200
Progress claims in excess of work in progress valuation	30,140	38,803
Trade creditors	22,997	5,347
Corporation tax payable	5,239	4,781
Other taxes and social security costs	3,758	3,587
Other creditors	1,500	1,500
Accruals	54,892	55,553
Deferred income	405	405
Amounts owed to group undertakings	6,374	3,187
	<u>134,109</u>	<u>124,363</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

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

	2004 £'000	2003 £'000
Bank loans – all repayable within 2 to 5 years	18,013	25,019
Advanced pension deductions	4,460	4,460
Deferred income	4,468	3,873
	<u>26,941</u>	<u>33,352</u>

Interest rates are based on LIBOR rates under term loans, revolving credit facilities and overdraft arrangements. The bank loan of £18,013,229 falling due after one year is repayable quarterly in equal instalments of £2,200,882. The bank loan is secured by a charge over DRDL book debts and a floating charge over certain other assets.

Deferred income falling due after more than one year consists of two amounts, £1,718,000 and £2,750,000. The amount of £1,718,000 represents revenue from the Ministry of Defence, which will be released in line with the amortisation of the pension prepayment (see Note 9). The amount of £2,750,000 represents revenue deferred to meet the costs of renewing the Frigate Refit Complex roof.

12. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred Tax Liability

	2004 £'000	2003 £'000
As at 1 January	14,220	6,733
Charged to profit and loss account (see Note 5)	3,018	7,487
As at 31 December	<u>17,238</u>	<u>14,220</u>
	2004 £'000	2003 £'000
Disclosed as: Deferred tax asset on pension contributions in advance of payments due	(1,382)	(1,382)
Deferred tax liability on difference between accumulated depreciation and amortisation and capital allowances	18,620	15,602
	<u>17,238</u>	<u>14,220</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

13. CALLED UP SHARE CAPITAL

Authorised

	31 December 2004 Number	31 December 2004 £'000	31 December 2003 Number	31 December 2003 £'000
Ordinary shares at £1 each	5,350,001	5,350	5,350,001	5,350
Special share of £1	1	-	1	-
	<u>5,350,002</u>	<u>5,350</u>	<u>5,350,002</u>	<u>5,350</u>

Allotted, called up and fully paid

	31 December 2004 Number	31 December 2004 £'000	31 December 2003 Number	31 December 2003 £'000
Ordinary shares at £1 each	5,350,001	5,350	5,350,001	5,350
Special share of £1	1	-	1	-
	<u>5,350,002</u>	<u>5,350</u>	<u>5,350,002</u>	<u>5,350</u>

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

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

	Share Capital £'000	Profit and Loss Account £'000	Share Premium £'000	Total Shareholders' Funds £'000
Balance at 1 January 2003	5,350	37,566	32,700	75,616
Profit for year	-	22,382	-	22,382
Equity dividend paid	-	(12,071)	-	(12,071)
Balance at 31 December 2003	<u>5,350</u>	<u>47,877</u>	<u>32,700</u>	<u>85,927</u>

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

15. PENSION SCHEME

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

a) SSAP 24 Disclosures

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

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

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

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

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

The actuary recommended the following contribution rates:

Main Scheme - 8% of pensionable pay until at least 31 December 2005.

WSMI employees - 17.9% of pensionable pay;

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

The results of the SSAP 24 calculations carried out by an independent qualified actuary indicate that the SSAP24 charge to the profit and loss account for the year to 31 December 2004 is £9.5m (2003: £8.4m).

An amount of £4.5 million (2003: £4.5 million) has been included as a pension provision and disclosed in creditors (Note 11).

The principal assumptions used for these calculations were, discount rate 6.25% per annum, salary growth 3.5% per annum and price inflation 2.50% per annum.

DEVONPORT ROYAL DOCKYARD LIMITED
NOTES TO THE ACCOUNTS
for the year ended 31 December 2004

20. PENSION SCHEME (CONTINUED)

b) FRS17 Disclosures

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

The actuarial valuation described above has been updated at 31 December 2004 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 three years ended on the dates below were:

	31.12.2004	31.12.2003	31.12. 2002
Rate of increase in salaries	3.75%	3.50%	3.50%
Rate of increase in pensions in payment	2.75%	2.50%	2.25%
Discount rate	5.40%	5.40%	5.40%
Inflation assumption	2.75%	2.50%	2.25%

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

	31.12.2004		31.12. 2003		31.12. 2002	
	%	£m	%	£m	%	£m
Equities	8.00	443.8	8.00	409.1	7.50	333.3
Bonds	4.90	221.3	4.90	206.1	4.75	195.8
Property	n/a	0.0	n/a	0.0	n/a	0.0
Cash and other	4.75	9.3	3.75	7.9	4.50	42.3
Total fair value of assets		674.4		623.1		571.4
Present value of scheme liabilities		768.4		687.3		648.7
Surplus/(Deficit) in the scheme		(94.0)		(64.2)		(77.3)
Less deferred tax (charge)/credit		28.2		19.2		23.2
Net pension asset/(liability)		(65.8)		(45.0)		(54.1)

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

DEVONPORT ROYAL DOCKYARD LIMITED
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20. PENSION SCHEME (CONTINUED)

	2004	2003
	£m	£m
Amount that would have been charged to operating profit		
Current Service Cost	18.9	17.6
Past Service Cost	<u>-</u>	<u>-</u>
Total Operating Charge	<u>18.9</u>	<u>17.6</u>
Amount that would have been included as other finance income		
Expected return on scheme assets	42.9	34.3
Interest on pension liabilities	<u>(37.1)</u>	<u>(33.9)</u>
Net return	<u>5.8</u>	<u>0.4</u>
Amount that would have been recognised in the statement of total recognised gains and losses (STRGL)		
Actual return in excess of expected return	15.9	52.6
Experience gains and losses	(0.9)	(2.9)
Change in assumptions	<u>(41.2)</u>	<u>(23.3)</u>
Actuarial (loss) / gain in statement of total recognised gains and losses	<u>(26.2)</u>	<u>26.4</u>
Movement in surplus before tax during year		
(Deficit) at the start of the year	(64.2)	(77.3)
Total operating charge	(18.9)	(17.6)
Contributions	9.5	3.9
Other finance income	5.8	0.4
Actuarial (loss) / gain	<u>(26.2)</u>	<u>26.4</u>
Deficit at the end of the year	<u>(94.0)</u>	<u>(64.2)</u>

	2004	2003	2002
	£m	£m	£m
History of experience gains and losses			
Difference between actual and expected returns on assets amount to	15.9	52.6	(129.5)
% of Scheme assets	2%	8%	(23%)
Experience gains and losses on liabilities amount	(0.9)	(2.9)	0.7
% of Scheme liabilities	0%	0%	0%
Total recognised in statement of total recognised gains and losses	(26.2)	26.4	(141.3)
% of Scheme liabilities	3%	4%	(22%)

Balance Sheet presentation	2004	2003
	£m	£m
Net assets excluding pension net liability	93.5	82.3
Pension deficit	<u>(65.8)</u>	<u>(45.0)</u>
Net Assets including pension deficit	<u>27.7</u>	<u>37.3</u>

Reserves Note	2004	2003
	£m	£m
Profit and loss reserve excluding pension net liability	52.9	41.7
Pension deficit	<u>(65.8)</u>	<u>(45.0)</u>
Profit and loss reserve	<u>(12.9)</u>	<u>(3.3)</u>

DEVONPORT ROYAL DOCKYARD LIMITED
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16. OTHER FINANCIAL COMMITMENTS

At 31 December 2004 the Company had a commitment under non-cancellable operating leases to pay in the future the following amounts:

Operating leases which expire:

	Land & Buildings	Other	Land & Buildings	Other
	2004	2004	2003	2003
	£'000	£'000	£'000	£'000
- Within one year	-	15	-	35
- In second to fifth year	1,027	1,257	1,329	603
- Over five years	272	-	7,907	-
	<u>1,299</u>	<u>1,272</u>	<u>9,236</u>	<u>638</u>

At 31 December 2004, other companies within the Group had board approval to expend £8.2 million on fixed assets in future years. This has not been provided for in the accounts.

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

17. PARENT UNDERTAKING

The Company's ultimate parent undertaking and the largest group in which the results of the company are consolidated is that headed by Halliburton Company incorporated in the state of Delaware, USA. The smallest group in which they are consolidated is that headed by Kellogg Brown and Root Holdings Limited (formerly Halliburton Company UK Limited). The consolidated accounts of these groups are available to the public and may be obtained from Kellogg Brown & Root Ltd, Public Relations Department, Hill Park Court, Springfield Drive, Leatherhead, Surrey KT22 7NL.

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18. RELATED PARTY TRANSACTIONS

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

Party Name	Overall Controlling Party	Purchases	Sales	At 31 Dec. 2004	
		From	To	Creditor	Debtor
		£'000	£'000	£'000	£'000
Kellogg Brown & Root Limited	Halliburton	1,017	-	159	-
Kellogg Brown & Root Projects Limited	Halliburton	166	-	111	-
Kellogg Brown & Root Services Limited	Halliburton	104	-	118	-
Kellogg Brown & Root UK Limited	Halliburton	192	5	217	-
Kellogg Brown & Root UK Inc.	Halliburton	480	-	-	-
Weir Valves & Controls UK Limited	Weir Group	31	-	1	-
Strachan & Henshaw Limited	Weir Group	877	755	341	550
Weir Pumps Limited	Weir Group	191	5	120	5
Weir Engineering Services Limited	Weir Group	228	-	-	-

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

19. CASH FLOW

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