Devonport Royal Dockyard Limited

Annual report

for the year ended 31 March 2013

Devonport Royal Dockyard Limited

Annual report

for the year ended 31 March 2013

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

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 2013

The directors present their annual report and the audited financial statements of Devonport Royal Dockyard Limited ("the Company") for the year ended 31 March 2013

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 The MOD programme is operated under a contractual framework set out in the 15 year Terms of Business Agreement ("ToBA") which commenced in April 2010, and has continued to operate successfully The committed levels of cost benefits to MoD on allocated contracts have been delivered and overall cost and service level 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 on-going programme of submarine refit and refuelling work The refuelling refit of the fourth Trident missile deterrent submarine, HMS Vengeance, progressed satisfactorily and remains on track to complete in approximately two years

Devonport's nuclear facilities are undergoing a £150 million project to upgrade the equipment used to remove used fuel from attack submarines when they reach the end of their operational lives When complete the facilities will allow the resumption of the defueling programme on end-of-life Swiftsure and Trafalgar class submarines

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 Three docking periods were undertaken in year, with HMS Richmond and HMS Somerset completing in year and HMS Ocean due to complete in April 2014 A number of other Fleet Time Support Periods on surface ships were also carried out Phase 2 of the Surface Ships Support Alliance ("SSSA"), between the MOD, BAE and Babcock, was completed with joint targets for availability and cost reduction being agreed

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

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 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 Company was selected as National Winner of the People Management Award in the Employers Engineering Federation Future Manufacturing Awards 2012 for the success of its Time Out For Safety programme which has encouraged staff engagement in the Company's drive for continuous improvements in safety on site The rate of reportable accidents per 100,000 hours of work during the reporting period was 0 20 (2012 0 25)

Future developments

Work has been undertaken dunng the year to progress the development of the Mantime Support Delivery Framework ("MSDF") contract which will be the prime delivery vehicle for the ToBA This contract will consolidate the majority of the MOD allocated work and deliver the ToBA guaranteed benefits to the MOD Contract agreement is expected dunng the first half of 2013/14 financial year

Phase 3 of the SSSA is being discussed to further develop and build upon the pnnciples agreed and successfully implemented in Phase 2 Babcock has been awarded the contract for through life support to HMS Scott The Upkeep programme continues with the refit of two Type 23 Fngates commencing in 2013/14, overlapping with the on-going work on HMS Ocean

The Company continues its active engagement in a number of pan-industry alliances with the MOD that will determine long term arrangements for delivenng and supporting current and future classes of surface warships and submannes, including concept and assessment work on the planned successor deterrent submanne 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

Principal risks and uncertainties

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

The key business nsks 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 risks and uncertainties, in the context of the group as a whole, is provided on pages 50 to 55 of the annual report of Babcock International Group PLC, which does not form part of this report

Key performance indicators

The manne 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 appropnate for an understanding of the development, performance or position of the Company The growth and performance of the Manne and Technology Division of Babcock International Group PLC of which the Company forms part, is discussed on pages 14 to 19 and 36 to 43 of the group's annual report, which does not form part of this report

Financial risk management

Financial nsk is managed in accordance with group policies and procedures which are discussed on pages 50 to 55 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 financial year was £71,013,000 (2012 £55,541,000)

No dividends were proposed or paid dunng the year (2012 £nil)

Devonport Royal Dockyard Limited

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
P R Jones
C Lockhart
J Hall
T M R Pettigrew
M S Homer
J W Howie

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 2013, 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

Babcock International Group PLC also provides protections for directors of companies within the group against personal financial exposure they may incur in their capacity as such These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of directors of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the group These indemnities came into force in 2012 and remain in force

Donations

The Company made charitable donations during the year amounting to £7,800 (2012 £71,441) No individual contributions in the year exceeded £2,000 (2012 two) No political contributions were made (2012 £nil)

Supplier payment policy

It is the Company's policy to abide by terms of payment agreed with suppliers, and through Babcock International Group PLC, the Company is committed to the principles of the Prompt Payment Code, which encourages and promotes best practice between organisations and their suppliers Trade creditors days of the Company at 31 March 2013 were 37 5 days (2012 38 4 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 During the year the Company began a continuing programme of employee engagement, to develop and sustain an open and honest dialogue with employees, with a focus on continuous improvement and culture change As part of this programme the Company has committed to investigating, exploring and resolving where practical, improvement issues raised by employees

The Company 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

Devonport Royal Dockyard Limited

Directors' responsibilities statement

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 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

On behalf of the board

I S Urquhart
Director

20 June 2013

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 2013 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 2013 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

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

20 June 2013

Devonport Royal Dockyard Limited

Profit and loss account for the year ended 31 March 2013

	Note	2013 £'000	2012 £'000
Turnover	2	**570,712**	514,470
Cost of sales		**(500,999)**	(461,321)
Operating profit	3	**69,713**	53,149
Net interest receivable	6	**4,044**	4,146
Other finance income	18	**17,000**	11,300
Profit on ordinary activities before taxation		**90,757**	68,595
Tax on profit on ordinary activities	7	**(19,744)**	(13,054)
Profit for the financial year	16, 17	**71,013**	55,541

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 2013

	Note	2013 £'000	2012 £'000
Profit for the financial year	16	**71,013**	55,541
Net actuarial loss recognised in the pension scheme	18	**(65,011)**	(13,665)
Deferred tax arising on loss in pension scheme	14	**15,603**	3,553
Deferred tax arising on change in rate of tax	14	**(793)**	(575)
Total recognised gains relating to the year		**20,812**	44,854

Devonport Royal Dockyard Limited

Balance sheet as at 31 March 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	8	**133,840**	128,158
Investments	9	**-**	-
		133,840	128,158
Current assets			
Stocks	10	**5,738**	6,205
Debtors	11	**402,168**	320,476
Cash at bank and in hand		**90,354**	67,142
		498,260	393,823
Creditors: amounts falling due within one year	12	**(334,859)**	(282,928)
Net current assets		**163,401**	110,895
Total assets less current liabilities		**297,241**	239,053
Creditors: amounts falling due after more than one year	13	**(1,520)**	(1,641)
Provisions for liabilities	14	**(9,661)**	(11,134)
Net assets excluding pension liability		**286,060**	226,278
Net pension liability	18	**(60,873)**	(21,903)
Net assets including pension liability		**225,187**	204,375
Capital and reserves			
Called up share capital	15	**5,350**	5,350
Share premium account	16	**32,700**	32,700
Profit and loss account	16	**187,137**	166,325
Total shareholders' funds	17	**225,187**	204,375

The financial statements on pages 8 to 26 were approved by the board of directors on 20 June 2013 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 2013

1 Accounting policies

Basis of accounting

The financial statements have been prepared on the going concern basis in accordance with the Companies Act 2006, 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 accumulated 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

Stocks

Stocks are valued at the lower of cost and net realisable value Cost is determined on a first-in first-out method Provision has been made, if necessary, for slow moving, obsolete and defective stock

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

Investments

Investments are shown at cost less provision for impairment.

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 operates a pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the Company The Company is also a contributing employer to another defined benefit scheme, the Babcock International Group Pension Scheme

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

1 Accounting policies (continued)

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

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 £2,260,000 based on the foreign exchange rates at 31 March 2013 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 £2,530,000 (2012 £6,872,000) generated in North America and £nil (2012 £964,000) generated in Europe

3 Operating profit

Operating profit is stated after charging	**2013 £'000**	2012 £'000
Depreciation of tangible assets (note 8)	**17,219**	16,063
Operating lease rentals		
- plant and machinery	**1,402**	931
- land and buildings	**1,257**	1,371
Auditors' remuneration		
- audit	**142**	114
Intellectual property royalty charge	**8,034**	2,130

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

Devonport Royal Dockyard Limited

4 Directors' remuneration

	2013 £'000	2012 £'000
Aggregate emoluments	**1,282**	634
Aggregate amounts received on exercise of share options	**317**	-
Total emoluments	**1,599**	634

Highest Paid Director	**2013 £'000**	2012 £'000
Aggregate emoluments and benefits (excluding shares) under long-term incentive scheme	**625**	240
Defined benefit pension scheme Accrued pension at the end of year (per annum)	**35**	70

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

Three directors (2012 no) exercised share options or received shares in respect of qualifying services under any long term incentive scheme No share options were exercised by the highest paid director in the year

Three directors (2012 two) participate in the group long term incentive plan and shares were received or receivable in the year

Retirement benefits are accruing for three directors (2012 two) under the group pension scheme and 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

The above disclosures relate to four (2012 three) directors Of the remaining five (2012 seven) directors that held office during the year

- Five (2012 six) 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 Recharges are made by the holding company and fellow subsidiaries to cover central and shared services including an element of directors' emoluments

- In 2012 one director was paid through a fellow subsidiary, but was not a director of that company Amounts recharged, in that year, to the Company in respect of that director amounted to £8,167

Devonport Royal Dockyard Limited

5 Employees

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

By activity	2013 Number	2012 Number
Operations	**4,249**	4,096
Administration	**8**	8
	4,257	4,104

The aggregate payroll costs of these persons was as follows	2013 £'000	2012 £'000
Wages and salaries	**153,682**	155,524
Social security costs	**14,789**	13,515
Other pension costs (note 18)	**20,632**	20,584
Total employee cost	**189,103**	189,623

6 Net interest receivable

	2013 £'000	2012 £'000
Interest payable and similar charges:		
- on bank loans and overdraft	**(1)**	(2)
Interest receivable and similar income:		
- from other group undertakings	**3,207**	3,076
- exchange rate gain/(loss)	**404**	(331)
- from others	**434**	1,403
Net interest receivable	**4,044**	4,146

7 Tax on profit on ordinary activities

	2013 £'000	2012 £'000
Current tax:		
UK corporation tax on profits	**17,742**	7,560
Group relief for consideration	**-**	-
Total current tax charge	**17,742**	7,560
Deferred tax (note 14):		
Origination and reversal of timing differences	**(990)**	(941)
Pension cost relief in excess of charge	**3,476**	7,335
Adjustments in respect of prior year	**(24)**	28
Change in rate of tax	**(460)**	(928)
Total deferred tax charge	**2,002**	5,494
Tax charge for the year	**19,744**	13,054

Factors affecting charge for the year

The tax assessed for the year is lower (2012 lower) than the standard rate of corporation tax in the UK 24% (2012 26%) The differences are explained below

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	**90,757**	68,595
Profit multiplied by standard rate of corporation tax in the UK of 24% (2012 26%)	**21,782**	17,835
Effects of		
Expenses not deductible for tax purposes	**40**	158
Interest receivable	**(874)**	(1,166)
Depreciation for year in excess of capital allowances	**990**	941
Pension cost relief in excess of charge	**(3,476)**	(7,335)
Research and development tax credit	**(720)**	(634)
Group relief for nil consideration	**-**	(2,239)
Total current tax charge for the year	**17,742**	7,560

Factors that may affect future tax charges

Legislation to reduce the main rate of tax from 24% to 23% from 1 April 2013, was introduced in the March 2012 Budget Statement and enacted in the Finance Act 2012 Further reductions to the main rate were proposed in the March 2013 Budget Statement to reduce the rate to 20% by 1 April 2015 These further changes had not been substantively enacted at the balance sheet date and, therefore the impact is not included in these financial statements

7 Tax on profit on ordinary activities (continued)

The effect of the changes expected to be enacted in the Finance Act 2013 would be to reduce the deferred tax asset provided at the balance sheet date by £745,000 This decrease in the deferred tax asset would be to increase the profit for the financial year by £840,000 and decrease equity by £1,585,000 This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 23% to 21% with effect from 1 April 2014

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 2012	87,180	173,956	34,386	21,921	317,443
Additions	-	511	2,538	19,852	22,901
Transfers	609	16,819	2,445	(19,873)	-
Disposals	(2,513)	(886)	(224)	-	(3,623)
At 31 March 2013	**85,276**	**190,400**	**39,145**	**21,900**	**336,721**
Accumulated depreciation					
At 1 April 2012	58,995	103,534	26,756	-	189,285
Charge for the year	3,549	10,355	3,315	-	17,219
Disposals	(2,513)	(886)	(224)	-	(3,623)
At 31 March 2013	**60,031**	**113,003**	**29,847**	-	**202,881**
Net book amount					
At 31 March 2013	**25,245**	**77,397**	**9,298**	**21,900**	**133,840**
At 31 March 2012	28,185	70,422	7,630	21,921	128,158

9 Investments

	2013 £'000	2012 £'000
Cost and net book value	-	-

On 31 January 2012, the Company transferred its intellectual property ("IP") to Babcock Integration LLP In return the Company received a partnership interest and entered into IP agreements, whereby, for being allowed access to the overall pool of IP in the LLP, a royalty charge of 1 5% of turnover is payable to the LLP The partnership interest has been recognised at a cost of £nil given that the know-how transferred was not recognised in the financial statements of the Company prior to the transfer

Devonport Royal Dockyard Limited

10 Stocks

	2013 £'000	2012 £'000
Raw materials	**5,738**	6,205

There was no material difference between the replacement cost of stocks and the balance sheet value

11 Debtors

	2013 £'000	2012 £'000
Amounts recoverable on contracts	**24,703**	31,971
Trade debtors	**9,743**	7,988
Amounts owed by group undertakings	**353,509**	271,119
Corporation tax debtor – research and development credits	**723**	723
Other debtors	**9,999**	5,847
Prepayments and accrued income	**3,491**	2,828
	402,168	320,476

Amounts owed by group undertakings include a net £240 6 million (excluding interest) of loans to other group companies (2012 £170 6 million) £60 0 million (2012 £60 0 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

12 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Payments received on account	**91,836**	75,929
Trade creditors	**16,469**	17,403
Amounts owed to group undertakings	**97,305**	85,245
Group relief	**29,957**	29,957
Corporation tax payable	**30,694**	12,952
Other taxation and social security	**4,496**	4,415
Other creditors	**819**	1,014
Accruals	**63,283**	56,013
	334,859	282,928

13 Creditors: amounts falling due after more than one year

	2013 **£'000**	2012 £'000
Deferred income	**1,520**	1,641

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

14 Provisions for liabilities

Deferred taxation	**2013** **£'000**	2012 £'000
At 1 April	**4,238**	1,722
Charged to profit and loss account (see note 7)	**2,002**	5,494
Credited to statement of total recognised gains and losses in respect of pension liability	**(15,603)**	(3,553)
Charged to statement of total recognised gains and losses in respect of change in rate of tax	**793**	575
At 31 March	**(8,570)**	4,238

Deferred taxation in the financial statements is as follows	**2013** **£'000**	2012 £'000
Difference between accumulated depreciation and capital allowances, and other timing differences	**11,049**	12,062
Change in rate of tax	**(1,388)**	(928)
	9,661	11,134
Asset in respect of pension scheme deficit (see note 18)	**(18,231)**	(6,896)
	(8,570)	4,238

Devonport Royal Dockyard Limited

15 Called up share capital

	2013 Number	2013 £'000	2012 Number	2012 £'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

16 Reserves

	Profit and loss account £'000	Share Premium account £'000
At 1 April 2012	**166,325**	**32,700**
Profit for the financial year	**71,013**	**-**
Net actuarial loss shown in the statement of total recognised gains and losses	**(65,011)**	**-**
Movement on deferred tax relating to pension scheme	**15,603**	**-**
Movement on deferred tax relating to change in rate of tax	**(793)**	**-**
At 31 March 2013	**187,137**	**32,700**

Devonport Royal Dockyard Limited

17 Reconciliation of movements in shareholders' funds

	2013 **£'000**	2012 £'000
Profit for the financial year	**71,013**	55,541
Net actuarial loss shown in the statement of total recognised gains and losses	**(65,011)**	(13,665)
Movement on deferred tax relating to pension scheme	**15,603**	3,553
Movement on deferred tax relating to change in rate of tax	**(793)**	(575)
Net addition to shareholders' funds	**20,812**	44,854
Opening shareholders' funds	**204,375**	159,521
Closing shareholders' funds	**225,187**	204,375

18 Pension commitments

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

The pension cost included as a charge in arriving at the profit for the financial year was as follows

	2013 **£'000**	2012 £'000
Devonport Royal Dockyard Pension Scheme	**18,935**	19,300
Babcock International Group Pension Scheme	**138**	-
Babcock International Group Defined Contribution Scheme	**1,559**	1,284
	20,632	20,584

The Company operates a defined benefit pension scheme (the "Devonport Royal Dockyard Pension Scheme") for the benefit of its employees The full details of this scheme are disclosed below

The Company is a contributing employer to another defined benefit scheme (the "Babcock International Group Pension Scheme") The Babcock International Group Pension Scheme is a multi-employer scheme, the full details of which are disclosed in the accounts of Babcock International Group Plc The Company is accounting for this scheme as if it was a defined contribution scheme, as the Company is unable to identify its share of the underlying assets and liabilities in the scheme Any surplus or deficit in the scheme will affect the contributions made by the Company During the year a payment of £45,000 (2012 £nil) was made in respect of the deficit pertaining to that scheme

The Company also contributes to a defined contribution scheme (the "Babcock International Group Defined Contribution Scheme") in respect of a number of its employees

Devonport Royal Dockyard Limited

18 Pension commitments (continued)

Devonport Royal Dockyard Pension Scheme

For the defined benefit scheme, the actuarial valuation has been updated at 31 March 2013 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 2011

The major assumptions used for the actuarial valuation were

Major assumptions	**31 March 2013 %**	31 March 2012 %	31 March 2011 %
Rate of increase in salaries	**2.6**	2 5	3 1
Rate of increase in pension payment	**2.4**	2 2	2 8
Discount rate	**4.4**	4 9	5 6
Inflation rate	**2.3**	2 2	2 8

The mortality assumptions used were

	2013 years	2012 years
Life expectancy from age 65 (male age 65)	**21.6**	21 4
Life expectancy from age 65 (male age 45)	**23.0**	23 3

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 2013 were

Analysis of assets and expected rates of return per annum:

	31 March 2013 %	**31 March 2013 £m**	31 March 2012 %	31 March 2012 £m
Equities	**8.4**	**275.4**	8 4	403 2
Property	**7.7**	**75.6**	7 7	70 4
Bonds	**3.5**	**1,276.8**	4 7	575 1
Cash and other	**2.3**	**(445.6)**	-	(47 8)
Total assets		**1,182.2**		1,000 9
Present market value of liabilities – funded		**(1,261.3)**		(1,029 7)
Pension liability		**(79.1)**		(28 8)
Deferred tax asset (note 14)		**18.2**		6 9
Net pension liability		**(60.9)**		(21 9)

Devonport Royal Dockyard Limited

18 Pension commitments (continued)

Investments have been valued for this purpose at fair value at the balance sheet date Equity investments and bonds are valued at bid price

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 the same as those in 2012 The expected rate of return on "Bonds" is a weighted average of the expected rate of return on the scheme's £591 2 million of corporate bonds/credit and £685 6 million of government bonds The expected returns on "Cash and other" represents the negative active position of £30 4 million in respect of the longevity swap that was entered into during 2009, £466 2 million liability in respect of Repo obligations, and £51 0 million in cash waiting to be invested

The longevity swap has a negative balance sheet value of £30 4 million (2012 £60 9 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 There has been no significant change in the mortality assumption adopted for FRS17 purposes at 31 March 2013 relative to the assumption used at the prior year end

Scheme assets do not include any of the Company's own financial instruments, or any property occupied by the Company

The equity investments and bonds are valued at bid price

Actual return on assets	**2013 £m**	2012 £m
Expected return on pension scheme assets	**66.4**	65 6
Actuarial gain on assets	**112.2**	4 0
	178.6	69 6

Analysis of amount charged to operating profit	**2013 £m**	2012 £m
Current service cost	**18.9**	19 3

Analysis of amount credited to other finance income	**2013 £m**	2012 £m
Expected return on assets	**66.4**	65 6
Interest on liabilities	**(49.4)**	(54 3)
	17.0	11 3

Devonport Royal Dockyard Limited

18 Pension commitments (continued)

Analysis of amount included in statement of total recognised gains and losses ('STRGL')	2013 £m	2012 £m
Actuarial loss recognised in the STRGL	**(95 5)**	(11 6)
Reimbursement right – longevity swap	**30.5**	(2 1)
	(65 0)	(13 7)
Cumulative actuarial loss recognised in the STRGL at 1 April	**(102 4)**	(88 7)
Cumulative amounts recognised in the STRGL at 31 March	**(167.4)**	(102 4)

Reconciliation of present value of scheme liabilities	2013 £m	2012 £m
At 1 April	**1,029.7**	978 4
Current service cost	**18.9**	19 3
Interest cost	**49.4**	54 3
Employee contributions	**2.7**	2 8
Benefits paid	**(47.2)**	(40 7)
Actuarial loss	**207.8**	15 6
At 31 March	**1,261.3**	1,029 7

Reconciliation of fair value of scheme assets	2013 £m	2012 £m
At 1 April	**1,000.9**	935 1
Expected return on scheme assets	**66.4**	65 6
Actuarial gain	**112.2**	4 0
Reimbursement right (longevity swap)	**30.5**	(2 1)
Benefits paid	**(47.2)**	(40 7)
Contributions paid by employer	**16.7**	36 2
Employee contributions	**2.7**	2 8
At 31 March	**1,182.2**	1,000 9

18 Pension commitments (continued)

Amounts for current and previous four years are as follows

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Plan assets	**1,182.2**	1,000 9	935 1	860 6	718 3
Defined benefit obligation	**(1,261.3)**	(1,029 7)	(978 4)	(987 6)	(676 3)
(Deficit)/surplus	**(79.1)**	(28 8)	(43 3)	(127 0)	42 0
Experience adjustments on scheme assets					
Amount	**112.2**	4 0	(5 5)	167 8	(188 6)
Experience gains and (losses) on liabilities					
Amount	**(94.9)**	-	11 0	21 0	5 5
Total amount recognised in the statement of total recognised gains and losses					
Amount	**(65.0)**	(13 7)	62 3	(203 8)	(47 5)

The best estimate of the contribution expected to be paid by the Company to the scheme over the next year is £35 2 million

Babcock International Group Pension Scheme

The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £138,000 (2012 £nil) The amount included in creditors at the year end in respect of this scheme was £18,000 (2012 £nil)

Babcock International Group Defined Contribution Scheme

The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £1,559,000 (2012 £1,284,000) The amount included in creditors at the year end in respect of this scheme was £164,000 (2012 £145,000)

19 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 £658 6 million (2012 £731 8 million) provided to certain group companies

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

20 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	2013		2012	
Operating leases which expire	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Within one year	851	57	990	146
In second to fifth years inclusive	-	834	-	577
In more than five years	406	-	406	7
	1,257	891	1,396	730

21 Other commitments

At 31 March 2013 the Company had committed, but not spent £4 8 million (2012 £3 4 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

22 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

For the year ended 31 March 2013, the Company had no transactions or balances outstanding with related companies that fall outside the FRS 8 exemption criteria (2012 none)

23 Ultimate parent undertaking

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

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

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

Devonport Royal Dockyard Limited

24 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