ENGINEERS
OF RELIABILITY

ABRO

2006/07 | ANNUAL REPORT & ACCOUNTS

Our people

...the vital components that keep you operational

Colin Mapp
Age: 39
Job: Senior Craft Fitter

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ABRO
ANNUAL REPORT & ACCOUNTS 2006-07

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ABRO is a defence engineering business providing customers with a range of high quality support services across a broad spectrum of vehicles and equipment types.

These include:

- Maintenance, Repair and Overhaul
- Complex Service and Repair
- Assembly, Integration and Test
- Calibration
- Diagnostics
- Fleet Management
- Mobile Support Teams
- Obsolescence Management
- Re-manufacture
- Workshop Management

A government Trading Fund since 2002, ABRO has provided an unrivalled repair, maintenance and re-manufacture service to military customers since the early 20th century.

Its prime role is to support the British Armed Forces. However, in recent years it has used its capabilities and capacities to compete for and win commercial contracts outside of the core defence market.

At the heart of the business is an experienced and flexible workforce of more than 2,300 people with a diverse skill base. Operating from a network of strategically located sites throughout the UK, ABRO provides comprehensive support to its customer base.

Turnover is in excess of £137 million and during the course of a typical year work is carried out on over 1,000 product lines of military and commercial vehicles and equipments, as well as completing in excess of 65,000 specific on-call repair tasks.

ABRO's aim is to continue to offer high quality flexible and responsive engineering services to all its customers and partners, effectively and efficiently at the best possible value for money.

Geoff Timmins
Age: 61
Job: Small Arms

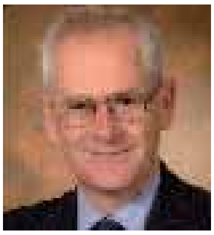
Our people
...the vital components that keep you operational

I was delighted to take up my appointment as Non-Executive Chairman of ABRO in the summer of 2006.

Operationally, the year has presented a number of challenges which have stretched the business as it worked to ensure high levels of critical engineering and equipment support to the British Armed Forces combined with improved value for money to the tax payer.

The Board has seen ABRO respond positively to these challenges which are set to continue in the coming year. This has been made possible by the pride and commitment our employees have shown to the tasks in hand.

The challenges the organisation will face in the coming months will be even greater and these will only be overcome by working as a team. We have the people that form that team and I am sure that we will face the future with confidence.



Jamie Pike
Chairman
4th July 2007

The Board has seen ABRO respond well to these challenges which are set to continue in the coming year.

Operational tempo and demand from our principal military customer and owner dominated the 2006/07 financial year.

Turnover reached £137.2 Million resulting in a profit before tax and interest of £4.9 Million.

It was not an easy year, however, with constant challenges created by the on-going operational tempo leading to our military customer depending on a first class operational performance from the business. This was successfully delivered.

Achievements against Ministerial Key Targets were as follows:

TITLE	TARGET	OUTTURN
Turnover	Target £134 M	Achieved
ROCE	Target 3.5%	Achieved
Schedule Adherence	Target delivery schedules	Partially Achieved
Value Added	Target 39 K	Achieved
Closing Order book -	Target £150 M	Achieved

A key in-year success story for the business was the first tranche of the "Bulldog" conversion programme, - the upgrading of the FV430 fleet of vehicles with new engines and transmissions, carried out at our Bovington heavy armour centre which transformed the performance of the vehicle now in daily operational use. Other notable engineering programmes included the Land Rover Hermes conversions and the Bedford upgrade programme. Programme work including light and heavy armour, continued apace at Donnington and Bovington with high levels of engineering support required across all equipment lines.

Several partnerships with defence sector Original Equipment Manufacturers (OEMs) were forged to open opportunities for new business as the skill base and operational focus of the business develops.

Our people are our most valuable asset without whom the year's performance could not have been achieved. Their dedication and support to operational demands is outstanding and continues to be a key factor in the ongoing success of ABRO.

In structural terms the business continued to evolve into four business units which will continue to be refined in the course of the new financial year. Improvements in effectiveness and efficiency were also achieved with further planned in 2007/08.

Our people are our most valuable asset without whom the years performance could not have been achieved. Their dedication and support to operational demands was outstanding and continues to be a key factor in the ongoing success of ABRO.

I look forward to the challenges of the coming year and know that ABRO will continue to deliver first class engineering support to military customers and continue to develop and grow as a business.

On 22 May it was announced in both Houses by MoD Ministers that ABRO would merge with the retained DARA businesses to create a new single defence support group with the primary objective of supporting MoD and the Armed Forces. Ministers expect the new Trading Fund to be fully operational by 1 April 2008 therefore work is now underway to determine the future shape, size and management structure of the new organisation. In the meantime, both ABRO and DARA will trade independently during the current financial year 2007/08.

Peter Moore
Chief Executive
4th July 2007

BUSINESS ACTIVITY

Business activity for the year was dominated by support to military operations. High demands were placed upon the business to deliver an increased range of services at short notice. The base overhaul programme of both light and heavy armour continued as planned and during the year the 2000th CVR(T) base overhaul was completed. Central to the support of operations was the FV430 “Bulldog” armoured personnel carrier upgrade programme.

Although direct sales to MoD remains broadly level, ABRO continues to secure growth in sales to the UK defence industry both at home and abroad where the business achieved its first notable success in the export market.

STRATEGY

The Defence Industrial Strategy acknowledges ABRO’s position in the Maintenance, Repair and Overhaul market for land equipment, but also encourages a movement towards long term support arrangements with Original Equipment Manufacturers (OEMs). To sustain ABRO’s route to market, therefore, ABRO continues to enter business arrangements with OEMs allowing provision of ABRO services as part of larger partnering arrangements.

BUSINESS DEVELOPMENT

It is expected that ABRO will maintain its business at existing levels.

Current opportunities include:

- Deploying ABRO capability to other MoD locations including Northern Ireland and the possibility of future support into Canada
- Transferring other elements of MoD industrial capacity into ABRO
- Maximising use of ABRO vehicle assembly capabilities on new build programmes including FRES

ORDER BOOK

The order book grew to over £150M at 31st March 2007.

ABRO has entered into an agreement with its principal customer, the Ministry of Defence (MoD) with the aim of delivering improved equipment availability to the front line commands. This will provide increased order book stability and allow better planning, leading to improved value for money for defence.

FINANCIAL PERFORMANCE OVERVIEW

ABRO successfully completed its 5th year of business as a Trading Fund within the UK MoD. The 2006/07 year proved extremely challenging but with a very satisfactory outcome that resulted in good profits and a strong balance sheet.

During the year several long term contracts came to an end. However several new contracts were secured which boosted the closing order book.

OPERATING RESULTS

Sales were £137.2M (2006 - £137M) and exceeded the key target by £3M.

The principal customer remains MoD, who took £118M (86%) of sales.

Profit before interest was £4.9M (2006 - £5.0M). This resulted in a return on capital employed of 7.1% (2006-6.8%) against a target of 3.5%.

Profit after interest was £4.3M (2006 - £4.5M) and a dividend of £3.9M (2005/06 £12M) was paid to the MoD. The underlying profit improvement was c. £0.5M after allowing for a number of non-recurring items which impacted on costs in 2006/07 and the previous year. These were the release of excess accruals for goods received, increase in the stock obsolescence provision and the impact of the quinqennial asset revaluation.

During the year ABRO reorganised the business into business streams, away from the traditional workshop structure. The performance of these business streams were as follows:

TITLE	SALES	OPERATING CONTRIBUTION BEFORE CORPORATE COSTS
A Vehicles	£63.1M	£9.5M
Land & B	£59.0M	£7.3M
Technical Equipment Support Services	£14.2M	£3.4M
Wider Markets	£ 0.9M	-

Some technical operational issues held sales volumes down in the first half year but these recovered in the last quarter. High volumes of subcontract and overtime working were required which adversely impacted the cost base.

The balance sheet continued to strengthen and enabled dividends of £3.9M to be paid to shareholders. Improvements in materials management resulted in a £6.9M reduction in gross inventories although a more cautious view on future usage meant increasing the charge for surplus and slow moving stocks by £1.8M.

Trade Debtor balances rose to £29.6M and collections stretched to 49 days. This was due to the record level of sales taken in the final six weeks of the year.

FINANCING AND CASH FLOW

ABRO was launched with £32.3M of capital and reserves, £32.3M of long term (fifteen year) loans and took on further financing in terms of a short term (five year) loan of £15M and £10M of short term borrowing (under one year). This produced a debt equity ratio at commencement of the Trading Fund of 1.8:1.

ABRO has since repaid in full its short term borrowing and reduced the original long term borrowings to £21.5M. In addition £15.9M of dividends, (£3.9M in 2007 and £12M in 2006) were paid to the shareholder. The debt equity ratio has improved to 0.3:1.

Cash balances closed little changed on the year at £11.7M. A relatively high cash balance is retained, mainly on short term interest bearing deposits as ABRO has no recourse to overdraft facilities.

STAKEHOLDER VALUE

ABRO has delivered significant value to stakeholders over its five years as a Trading Fund.

Customers have benefited from reductions of more than 20% in prices, including a three year standstill in prices (2004/05 to 2006/07) Additionally operational benefits have accrued from a highly flexible and responsive delivery. This has resulted in an improvement in equipment availability on major programme lines.

Shareholders have benefited by a growth of £16.4M in retained earnings, £15.9M in dividends and £36M reduction in borrowings.

Employee benefits have been from stable employment and a profit share scheme which has delivered payouts in five consecutive years.

RATIONALISATION

The 2005/06 report made reference to ABRO's two phase rationalisation programme with Phase One concluding in March 2006, after the release of 283 staff. Ministerial approval to proceed with Phase two proposals for rationalistion of the Land and 'B' Vehicle business were confirmed in March 2006 with implementation beginning in 2006/07. Following changes to the customers' requirement for future support, initial Phase Two proposals for ABRO's Head Office and remaining business streams were reviewed and revised during 2006/07. A Ministerial announcement in November 2006 confirmed that whilst major rationalisation of operational capacity and capability was not likely in the short to medium term, ABRO should continue to seek opportunities to improve the efficiency of its supporting cost base. Plans to improve efficiency of the supporting cost base will be developed during 2007/08.

CAPITAL INVESTMENT

Capital investment in year amounted to £1.0M. New spend has been constrained by uncertainty over the direction of the rationalisation proposals.

PERFORMANCE AGAINST KEY TARGETS 2006/07

The following five key targets were agreed with the Minister of State for the Armed Forces. Performance against each target has been subject to inspection by the National Audit Office.

TITLE	TARGET	OUTTURN
Key Target 1: Financial Performance	To achieve at least a 3.5% Return on Capital Employed (ROCE)	Achieved
Key Target 2: Turnover	To achieve a turnover figure of at least £134M	Achieved
Key Target 3: Schedule Adherence	To meet customer agreed targets for delivery schedules on critical programme lines and LAND load tasks	Partially Achieved
Key Target 4: Efficiency	To achieve a value added per employee target of at least £39K	Achieved
Key Target 5: Winning Work	To achieve a total closing order book of at least £150M	Achieved

ABRO KEY TARGETS – FY 2007/08

BACKGROUND

As an established Trading Fund, ABRO has adopted commercially focused Key Targets for FY2007/08 that are comparable to similar organisations within the private sector.

ABRO is currently going through a considerable period of change and for consistency have elected to maintain three of the same Key Targets as for 2006/07. The new Key Target areas focus on the environment and implementing the ministerial decision to merge ABRO and retained DARA business units.

TITLE	TARGET
Key Target 1: Financial Performance	Achieve at least a 3.5% Return On Capital Employed (ROCE).
Key Target 2: Environment	To meet agreed programme for achieving ISO14001:2004 certification at main ABRO sites.
Key Target 3: Schedule Adherence	To meet Customer agreed targets for delivery schedules on Critical Programme lines and LAND Load tasks.
Key Target 4: Efficiency	To improve real turnover per indirect employee by 3% against 2006/07.
Key Target 5: Creation of New Organisation	Carry out the actions necessary to support the merger of ABRO, retained DARA Business Units and approved DSDA engineering activities such that a new combined trading fund is fully operational by April 2008.

PEOPLE

EMPLOYMENT POLICIES

ABRO continues to maintain the strong conviction that in order to remain competitive, the workforce must mirror the diversity of the communities within which it operates. It continues to pursue talented employees, without regard to ethnic background, religion, age, disability or gender, who will provide the expertise, passion, pace and imagination to drive the business forward to a prosperous future. It is ABRO's policy to provide equal employment opportunities and appropriate training and career development for any employees who are or have become disabled.

ABRO achieved Investors in People in 1999 and continues to maintain accreditation.

EMPLOYEE INVOLVEMENT

ABRO is committed to excellent working relations with the Trade Unions, through both formal consultation and the more informal day to day contact at local and national levels. ABRO continues to seek to maximise communications at all levels in order to involve employees in the decision making process of the business.

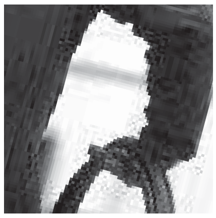
OCCUPATIONAL RISK & THE ENVIRONMENT

ABRO is committed to meeting its obligations, responsibilities and adhering to all existing legislation on health, safety and environmental requirements.

Statistics show that positive action in encouraging all staff to take appropriate steps to reduce accidents has resulted in a decrease in the total number of incidents across the sites and these remain well below the HSE's national incidence rates.

ABRO is committed to compliance with the Environmental Protection Act and the Environment Act and with all other existing environmental legislation. Bovington maintains BSEN14001 certification and much work has been undertaken to conduct impact assessments at other sites. Whilst these assessments have concluded that significant improvement has been made, further progress is required prior to ABRO-wide status being achieved.

ABRO has maintained BS EN ISO 9001:2000 certification.



John Cullen
Age: 54
Job: Commercial Mechanics

Our people
... the vital components that keep you operational

The Chief Executive of ABRO has asked me to validate performance against the 2006/07 Key Targets.

RESPECTIVE RESPONSIBILITY OF ABRO, THE CHIEF EXECUTIVE AND THE AUDITOR

ABRO and the Chief Executive are responsible for the measurement and reporting of the Trading Fund's performance against the Key Targets.

I examine and conclude on whether the Trading Fund has:

- Provided full details of performance against all ABRO's Key Targets;
- Ensured that all performance information is reliable and fairly presented

BASIS OF CONCLUSION

The validation includes an examination, on a test basis, of evidence relevant to the amounts and disclosures of the out-turns and achievements included within the Statement. It also includes an assessment of the significant judgements and methodologies made by ABRO and the Chief Executive in the Statement's preparation.

CONCLUSION

The Statement of Performance above includes all ABRO's 2006/07 Key Targets and it reliably and fairly presents the Agency's performance against the Key Targets. I have no observations to make on this Statement.

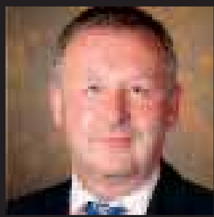
John Bourn
Comptroller and Auditor General
5th July 2007

National Audit Office
157-197 Buckingham Palace Road
London
SW1W 9SP

Chairman
Jamie Pike

Responsible for leading the ABRO Board and ensuring it operates efficiently and effectively in its role of developing strategy and overseeing and scrutinising ABRO's plans and performance.

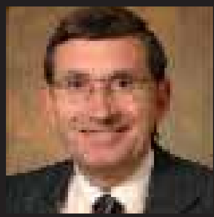
Jamie Pike was appointed ABRO Chairman in September 2006 following the departure of Michael Gates at the end of August 2006. He is currently Chief Executive at Foseco Plc and a Non-Executive Director for the Army Recruitment and Training Division.



Chief Executive
Peter Moore

Peter Moore was appointed Chief Executive of ABRO in 2005, responsible to the Owner for delivering the strategic aims and objectives of the business and providing corporate governance leadership.

Peter has extensive manufacturing, marketing, commercial and logistics experience in a variety of supply and engineering organisations both in the public and private sectors. In his last appointment he was Chief Executive Officer of Malta Shipyards Limited group of companies where he was responsible for the re-structuring and turn-around of the business and re-establishing the company as a major player in the ship repair, offshore and military sectors.



Deputy Chief Executive
Malcolm Westgate

Responsible for Business Development, HR, Secretariat, Audit, Health and Safety, Environment and Fire, Security, Risk and Facilities Management.

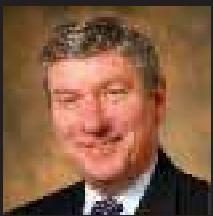
Malcolm Westgate was appointed to ABRO in April 2002 following an extensive career in the MoD, latterly as Director of HR/IT for the DLO's Warship Support Agency. He was also the Head of Profession for MoD Nuclear Suitably Qualified and Experienced Personnel in MoD.

In recent years he was Managing Director of Royal Naval Armament Depot, Beith, Deputy Chief Executive of the Naval Bases and Supply Agency, Chief Inspector Explosives for the Navy Department and Chief Executive of the Disposal Sales Agency.

Finance Director
Stuart Ash
FCCA

Responsible for finance, commercial and business systems and the delivery of high quality financial management information to the business.

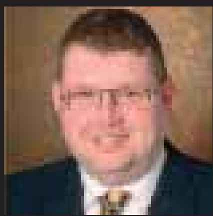
Stuart Ash was appointed in October 2001 and has wide experience in finance, commercial and project management gained from 20 years at Director level in the defence industry with Racal, Thorn, Ferranti and Brown & Root. This includes seven years at Atomic Weapons Establishment, Aldermaston as Finance Director.



Operations Director
David Mather
MBA, BSc, CEng, MIET

Responsible for developing and delivering the operations strategy that supports and underpins ABRO's strategic aims and objectives.

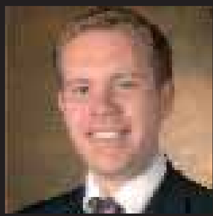
David Mather was appointed Operations Director in September 2002. He has gained experience in various engineering sectors including the machine tool industry, car industry and more recently defence. He has implemented a number of successful change management programmes. In addition, he has extensive knowledge of modern manufacturing techniques which continue to be applied throughout operations.



Sales & Marketing Director
Ian Metcalf
MA, FIPT

Responsible for delivering and managing a robust marketing and sales strategy.

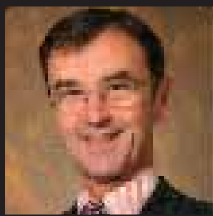
Ian Metcalf was appointed in January 2006 and has a track record of success in major sales to US DoD, UK MoD and European defence ministries. In recent appointments he has been responsible for transforming business relationships with MoD from short term transactional activity to long term partnered contracts delivering value to both parties.



Non-Executive Director
Tim Johnson

Tim Johnson was appointed to the ABRO Board in May 2005.

He is currently a Director both at the MoD where he advises Ministers on their shareholding interest in Trading Funds and at the Shareholder Executive, where he works across a range of Government shareholdings. Previously he had a varied career in Her Majesty's Treasury where roles included managing the Treasury's interest in Royal Mail and implementing the public private partnership for National Air Traffic services.



Non-Executive Director
Michael Jones
FRAeS, MIMechE, MIEE

Michael Jones was appointed to the ABRO board in January 2003.

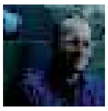
He has business experience in both automotive and aerospace, obtained in the US, Europe, Middle East and Far East. He was Managing Director of a US automotive multi-national, and has run plants in both the USA and Europe.

Michael joined Smith Aerospace in 1997 and was appointed to his current position, Aerospace Systems Vice President in 2004 after holding appointment as Managing Director UK Operations, Group Director and Managing Director, Civil Systems.

Non-Executive Director
Richard Holroyd
MBA, MA

Richard Holroyd was appointed to the ABRO board in January 2003.

Currently also a Non-Executive Director of Cantrell & Cochrane Plc, of Otto Weibel AG in Switzerland and a Member of the United Kingdom Competition Commission. Previously he was Managing Director of Colmans of Norwich, European Director, Reckitt & Colman and Head of the Global Marketing Futures department of Shell International.



Our people

...the vital components that keep you operational

Nick Edwards
Age: 35
Dept: Stormer C23 (Air defence)

1. INTRODUCTION

This report has been prepared in accordance with the Directors' Remuneration Regulations 2002. The Regulations require the auditors to report to the Agency's members on the 'auditable part' of the Directors' Remuneration Report and to state whether in their opinion that part of the report has been properly prepared. The Report has therefore been divided into separate sections for audited and unaudited information.

UNAUDITED INFORMATION

2. THE REMUNERATION COMMITTEE

The Remuneration Committee is a sub-committee of the ABRO Board and is made up of the Two non-executive directors - Mr Michael Jones and Mr Tim Johnson - a director level representative of the MoD Directorate of Business Delivery. Mr Richard Holroyd is the non-executive chair. The Deputy Chief Executive, ABRO acts as the Secretary of the Committee and other individuals including the Chairman and the Chief Executive are normally invited as appropriate. The committee met twice during the year ended March 2007.

The purpose of the committee is:

- To approve the ABRO annual pay remit for submission to the MoD and HM Treasury for final approval.
- To agree the formula for payments under the Corporate Bonus Scheme based on assessment of the performance of ABRO against its key performance targets and the level of operating profit. To endorse, or comment on the Executive's judgement of the affordability of making the payments.
- To review and approve any proposed revisions to the Corporate Bonus Scheme.
- To endorse, if appropriate, proposed annual pay/bonuses to Senior Civil Servants in ABRO if discretion is delegated to the Chief Executive of ABRO by the MoD. To endorse the arrangements and criteria for ABRO Senior Civil Servants performance related pay.
- To review and endorse the proposed remuneration to be paid to the Chief Executive under the terms of his engagement by and employment with the MoD.
- To consider and advise on any other reward and recognition issues such as issues arising from pay and grading reviews, as directed by the ABRO Board or requested by the ABRO Executive.

The Committee will usually meet as an extension to ABRO Board Meetings. It is likely that meetings will be required in:

- March (to set the parameters for pay negotiations and agree process for the SCS pay/bonus).
- May (to agree the formula for the corporate bonus scheme) and
- Once or twice per year to advise on issues arising from the ABRO's pay and grading review.

3. REMUNERATION POLICY

Directors in ABRO are either members of the MoD Senior Civil Service (SCS) or are recruited from industry as Fixed Term Appointments (FTAs).

Those Directors who are part of the SCS come under the remit of the MoD's pay strategy as endorsed by the Main Pay Committee. It supplements the performance management arrangements for SCS which seek to encourage continuous improvement, contribute to delivery of MoD's key performance targets and deal with poor individual performance. It also underlies the work on the Civil Service Management Board agenda for Improving Leadership Capacity in the SCS.

For those Directors on FTAs their basic salary is reviewed annually in line with Cabinet Office provisions applying to senior appointments, not on standard performance related pay terms; the annual uprate is usually close to the indicators for inflation (in recent years 2.5-3%).

The ABRO Chairman's fee is set by the Permanent Under Secretary (PUS) and in 2006 was paid at a fixed rate of £40,000 per year, paid monthly in arrears and set on the basis that the role should require at least 40 days work per year. In 2006 the other non-executive directors received a daily rate of £600 excluding expenses until December 2006. The Chairman of the Remuneration Committee also received an additional £600 per quarter. The non-executive director fees were reviewed in January 2007 and fees were then paid at a fixed rate of £20,000 per year, paid monthly in arrears and set on the basis that the role should require at least 40 days work per year. This excludes the representative from MoD's Directorate of Business Development whose services are not charged to ABRO. Non-executive Directors are not involved in any discussion about their own remuneration and their fees are reviewed by PUS. All payments made to non-executive directors are non pensionable.

ANNUAL BONUS SCHEME

ABRO bonuses run in parallel to the MoD SCS arrangements. The Pay Committee monitors the inter-relationship between individual and team bonuses to ensure consistency, that performance measures are suitably aligned and that the total reward package is reasonable. The Pay Committee liaises with ABRO Remuneration Committee as required to ensure totality of remuneration in ABRO does not become disproportionate to the rest of the SCS.

Directors who are SCS officers are covered by the MoD SCS bonus scheme. ABRO Directors on FTAs are able to earn up to a 20% annual performance related bonus against targets negotiated each year with the Chief Executive. The bonus is non pensionable and non consolidated and is paid subject to the assessment of performance as a one-off lump sum at the end of the annual bonus review period.

The table below shows bonuses/performance targets for directors for 2005/06 paid in 2006/07:

	% OBJECTIVES ACHIEVED	BONUS AS % SALARY
Peter Moore[1]	100	10
Stuart Ash	85	9
David Mather	85	9
Ian Metcalf[2]	N/A	N/A
Malcolm Westgate	N/A	12
Geoff Thompson[3]	N/A	N/A

[1] Appointed 1 August 2005
[2] Joined ABRO January 2006
[3] Left ABRO August 2006

EXTERNAL APPOINTMENTS

No Executive Director currently has membership of any other Departmental Boards

4. SERVICE CONTRACTS

EXECUTIVE DIRECTORS	DATE OF APPOINTMENT	UNEXPIRED TERM	EMPLOYEE NOTICE PERIOD
Peter Moore	August 2005	15 months	6 months
Stuart Ash	October 2001	5 months	6 months
David Mather	September 2002	4 months	6 months
Ian Metcalf	January 2006	19 months	6 months
Malcolm Westgate[1]	April 2002	N/A	N/A
Geoff Thompson[2]			

[1] SCS Director and therefore covered by Civil
[2] Left ABRO in August 2006

NON-EXECUTIVE DIRECTORS	DATE OF APPOINTMENT	UNEXPIRED TERM	NOTICE PERIOD
Michael Gates[1]			
Jamie Pike	October 2006	< 6 Months	1 Month
Michael Jones[2]	January 2004	21Months	1 Month
Richard Holroyd[2]	January 2004	9 Months	1 Month
Tim Johnson[3]	May 2005	N/A	N/A
Jane Cannon[4]			

[1] Mr Gates held a provisional contract which expired on the appointment of Mr Pike in October 2006.
[2] Re-Appointment at end of initial contract period.
[3] Mr Johnson, is the representative of MoD's Directorate of Business Development. This is a permanent position on ABRO's Board and is a service resourced at the discretion of MoD.
[4] Left ABRO in May 2006.

AUDITED INFORMATION
5. DIRECTORS' REMUNERATION

The following table sets out an analysis of pre-tax remuneration during the year ended March 2007 and for 2006.

EXECUTIVE DIRECTORS	TOTAL 06/07 £'000	TOTAL 05/06 £'000
Peter Moore[1]	130-135	80-85
Stuart Ash	95-100	90-95
David Mather	110-115	105-110
Ian Metcalf[2]	105-110	20-25
Geoff Thompson[3]	20-25	65-70
Malcolm Westgate	85-90	85-90

[1] Appointed 1 August 2005 – therefore only 8 months remuneration shown for 2005/06

[2] Joined ABRO January 2006 – therefore only 3 months remuneration shown for 2005/06

[3] Left ABRO in August 2006

Salary includes: gross salary; performance pay or bonuses; overtime; reserved rights to London Weighting or London allowances; recruitments and retention allowances; private office allowances and any other allowance to the extent that it is subject to UK taxation.

NON-EXECUTIVE DIRECTORS	FEES 2006/07 £'000	FEES 2005/06 £'000
Jamie Pike[1]	20-25	–
Michael Gates[2]	20-25	35-40
Michael Jones	5-10	5-10
Richard Holroyd	10-15	10-15
Jane Cannon[3]	0-5	5-10
Tim Johnson[4]	N/A	N/A

[1] Left ABRO in September 2006

[2] Joined ABRO in October 2006

[3] Left ABRO in May 2006

[4] Representative from MoD's Directorate of Business Development. Salary and pension costs of full-time government officials are borne by their parent departments

6. DIRECTORS' PENSIONS

	REAL INCREASE IN PENSION £'000	REAL INCREASE IN RELATED LUMP SUM AT AGE 60 £'000	TOTAL ACCRUED PENSION AT AGE 60 AT 31/03/2007 £'000	TOTAL ACCRUED LUMP SUM AT AGE 60 £'000	CETV AT 01/04/2006 £'000	CETV AT 31/03/2007 £'000	REAL INCREASE IN CETV FUNDED BY EMPLOYER £'000
Peter Moore (Chief Executive)	0 – 2.5	N/A - Premium	0 – 5	N/A - Premium	19	50	26
Stuart Ash (Finance Director)	0 – 2.5	2.5 – 5.0	5 – 10	15 – 20	114	144	23
David Mather (Operations Director)	0 – 2.5	0	5 – 10	0 – 2.5	92	118	21
Ian Metcalf (Sales & Marketing Director)	0 – 2.5	N/A - Premium	0 – 5	N/A - Premium	4	23	14
Malcolm Westgate (Deputy Chief Executive)	(0 – 2.5)	(2.5 – 5.0)	35 – 40	115 – 120	937	948	(35)
Geoff Thompson[1]	(0 – 2.5)	(0 – 2.5)	25 – 30	80 – 85	588	617	(1)

[1] Left ABRO in August 2006

The factors used to calculate the CETV for members of the PCSPS were revised for 2006/07 following advice from the Cabinet Office. The figures for 31 March 2006 have been recalculated using the new factors and this has led to changes to the figures published last year. Pension benefits are provided through CSP arrangements. Civil Servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium, and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under the three schemes are increased annually in line with changes in the Retail Price Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. For premium, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike classic, there is no automatic lump sum (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly as per classic. The partnership pension account is a stakeholder pension arrangement.

The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement). Further details about the CSP arrangements can be found at the website www.civilservice-pensions.gov.uk.

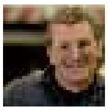
A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The reported increase in CETV reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies. The CETV figures, and from 2003-04 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the CSP arrangements and for which the CS Vote has received a transfer payment commensurate to the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries. The Principal Civil Service Pension Scheme (PCSPS) is an unfunded multi employer defined benefit scheme but ABRO is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk). For 2006/07, pursuant to the Superannuation Act 1972, employer's contributions of £8,074K were payable to the PCSPS (2005/06 £8,211K) at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay, based on salary bands. Rates will increase from 2007/08. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme.

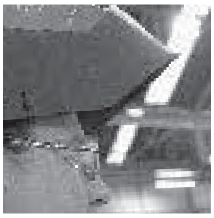
7. APPROVAL

This Directors' Remuneration Report has been approved by ABRO Chief Executive.

Peter Moore
Chief Executive
4th July 2007



Our people
...the vital components that keep you operational



Stuart Richie
Age: 42
Dept: Mechanic / Welder

Under section 4(6)(a) of the Government Trading Funds Act 1973 the Treasury has directed ABRO to prepare a statement of accounts for each financial year in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of ABRO at the year end and of its profit and loss, total recognised gains and losses and cash flows for the financial year.

In preparing the accounts the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the accounts direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that ABRO will continue in operation.

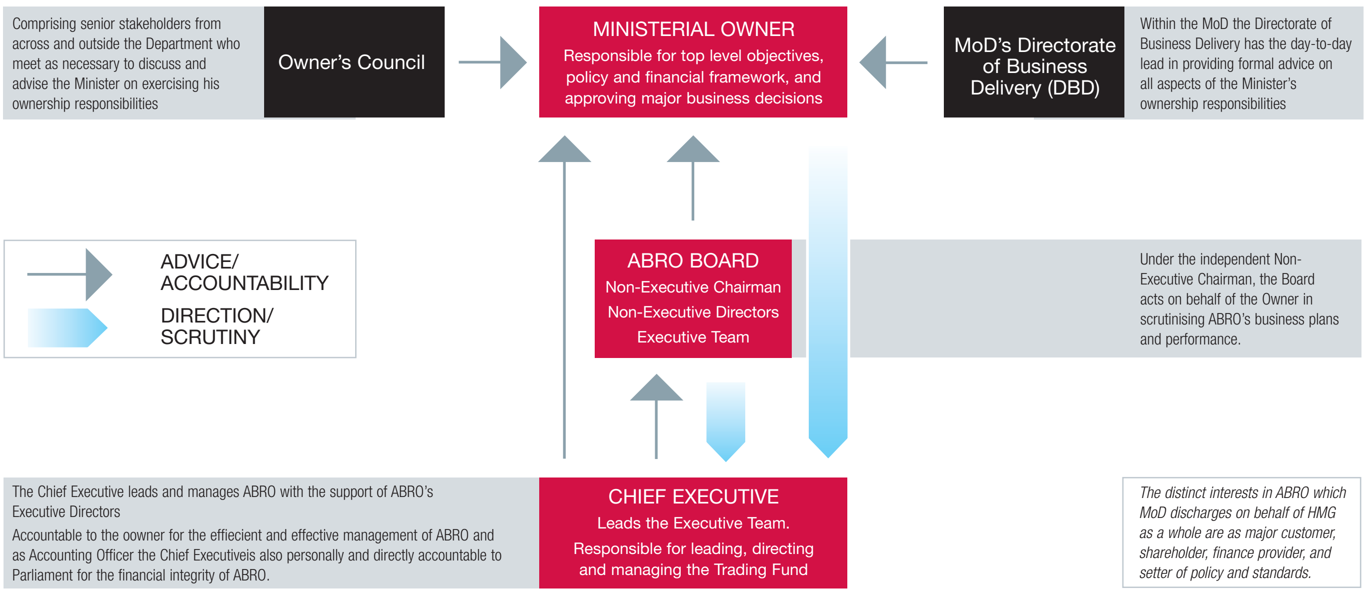
The Treasury has appointed the Chief Executive of ABRO as the Accounting Officer for ABRO. His relevant responsibilities in this role, including his responsibility for propriety and regularity of the public finances for which he is answerable and for keeping of proper records, are set out in the Accounting Officers' Memorandum, issued by the Treasury and published in "Government Accounting".

1. SCOPE OF RESPONSIBILITY

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of ABRO's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

The central features of ABRO's governance arrangements draw upon best practice in both the public and private sectors. Full details of ABRO's governance arrangements are published within the Framework Document. However, the central features of the governance arrangements are illustrated below:

GOVERNANCE OF ABRO



In addition to the above, the ABRO Board also has Audit and Remuneration sub-committees, both chaired by a Non-Executive Director. The primary purpose of the Audit Committee is to monitor and review the scope, plans and execution of assurance processes which comprise the risk management strategies of the ABRO Board, and where necessary recommend appropriate action, and to review the financial reporting of ABRO. The Remuneration Committee determines the bonus framework for senior executives and makes recommendations to the MoD about their remuneration.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of ABRO policies, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The system of internal control has been in place in ABRO for the year ended 31 March 2007 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

[1] Available from Libraries of the Houses of Parliament as well as being published on ABRO's corporate website www.abro.mod.uk

3. CAPACITY TO HANDLE RISK

The ABRO Business Risk Management Strategy sets out roles and responsibilities at all levels for the risk management process and is published, along with a detailed business process on ABRO's Lean Integrated Management System. The ABRO Board remains committed to ensuring that risk is assessed and addressed across the business.

Whilst risks are managed within ABRO at the lowest level at which they are controllable, a corporate risk register is maintained and reviewed regularly by the Executive Management Team and ABRO Board. Each corporate level risk is "owned" by an individual Director who is responsible for managing the risk and ensuring that associated mitigating factors are implemented.

4. THE RISK AND CONTROL FRAMEWORK

Work is ongoing to increase the understanding of ABRO's risk and control environment to support an accurate assessment of ABRO's risk appetite. Risk registers are in place at each site and for each Head Office functional area with risks aligned to Key Targets and corporate objectives. Risks are predominantly measured and escalated on an inherent basis using standard defined criteria. The focus remains on the identification and analysis of the root causes of the risk in order to focus the mitigation actions more effectively.

Other practices in place for the identification and management of risk are:

- Business Continuity Planning which has been a focus of 2006/07 with desk top exercises undertaken at all sites to test the robustness of plans and feedback lessons learnt.
- The creation and maintenance of project risk registers which form part of ABRO's bid management process.
- Appropriate insurance arrangements are in place.
- Anti fraud and theft strategy continues to be promoted. There have been no new instances of reported fraud but four petty thefts were reported during the year for which no culprit was identified. However, following a report of vehicle fuel theft, a non ABRO employee has been arrested and charged by the police. Following each incident of theft, internal controls were reviewed and where necessary are being strengthened.

5. REVIEW OF EFFECTIVENESS

As Accounting Officer, I also have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within ABRO who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The key elements of the mechanisms in place to provide effective internal control are:

The ABRO Board

This comprises an independent Non-Executive Chairman, three Non-Executive Directors and the full Executive Team, of four Directors and myself. Formal Board meetings are held quarterly, interspersed with meetings held between myself, the Chairman and the other Non-Executives. In addition, I hold monthly meetings with my Executive Team to review and assess performance against business objectives and actions underway to address issues or manage risks.

Audit Committee

The Audit Committee meets quarterly and consists of two Non-Executive Directors with a Non-Executive Chairman. The meetings are attended by representatives from the National Audit Office; Defence Internal Audit; ABRO Internal Audit and; relevant personnel from within the business as guided by the agenda. The Audit Committee reviews the system of internal control and minutes are available to the Board.

Internal Audit

The internal audit service reviews the effectiveness of ABRO's internal control environment and is provided by an in-house team of auditors supplemented by the MoD's Defence Internal Audit (DIA). The annual audit programme is developed on a risk basis and agreed by the Audit Committee. Assignments are carried out in accordance with Government Internal Audit Standards and findings and reports are presented to the Audit Committee along with the sponsoring Director.

Other Assurance Providers

Assurances are received by the Board from regular reports on quality, health, safety, environmental protection, and fire risks. In addition ABRO is subject to review by other independent bodies including BSI, Environment Agency, Defence Fraud and Analysis Unit (DFAU) and the Defence Security Standards Organisation (DSSO) which examines ABRO's approach to both security and business continuity.

Financial Management

The system of internal financial control provides reasonable although not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities would either be prevented or would be detected within a timely period.

Control Environment

Control is exercised through an organisation structure with clearly defined levels of responsibility and authority, and appropriate operational procedures as well as financial reporting procedures and management review. Management Assurance Statements for the year ended 31 March 2007 have been signed by all Directors and General Managers to confirm that they have discharged their responsibilities in respect of the systems of internal control.

6. SIGNIFICANT CONTROL WEAKNESSES

Update on Control Weaknesses Identified in 2005/06 Report & Accounts

Reconciliation of Goods Received not Invoiced was identified as a historic control weakness in 2005/06. In the current year, invoice matching processes have been further improved and review of liabilities is now routine. This has allowed 2005/06 provisions for un-vouchered liabilities to be released in full.

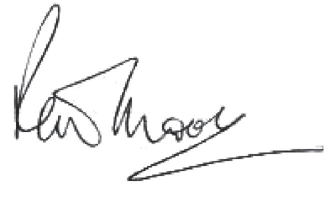
Significant Control Weaknesses identified in 2006/07

ABRO's materials management system has seen major improvements during the year, particularly in the quality of bills of material information, with a resultant lower forecast of material demand and reduced stock consumption. Improved forecasting has enabled ABRO better to identify slow moving and obsolete stocks resulting in the requirement to increase the charge for slow moving and obsolete stocks by £1.8M. However, improvements to the materials management system have enabled ABRO to continue to meet output whilst significantly reducing net stocks, now £9.3M, down from a high of £28.8M at 31.03.04. The surplus stocks will be disposed of as either returns to customers where there is demand or through the MoD disposal agencies. Both of these have proved effective disposal routes and afford ABRO some value on disposal.

7. FUTURE DEVELOPMENTS

Along with continuing work to further embed risk management within the organisation, planned future developments include:

- Continuing to increase the coherence of ABRO's audit and assurance functions and ensure adequate coverage of the identified risk areas.
- Strengthening the role of the Board through the implementation of the new ABRO Framework Document.



Peter Moore
Chief Executive
4th July 2007

STATUTORY BACKGROUND

These accounts have been prepared in accordance with a direction given by HM Treasury in line with section 4(6) of the Government Trading Funds Act 1973 and in accordance with the Government Financial Reporting Manual (FReM).

PRINCIPAL ACTIVITIES AND SIGNIFICANT CHANGES DURING THE YEAR

The principal activities were the repair, remanufacture and engineering support of a wide range of land based weapon systems, support equipment and ancillaries for the United Kingdom Armed Forces, together with the provision of these services to an increasing number of commercial and local authority organisations.

The principal activities are described in more detail in the Management Commentary on pages 8-10.

ABRO became a Trading Fund on 1st April 2002, having previously been a vote funded Agency of the Ministry of Defence.

DIVIDEND

A Dividend of £3.9 Million was paid to the Ministry of Defence during the year.

DIRECTORS

The Executive Directors who served during the year were:

Mr Peter Moore	Chief Executive
Mr Malcolm Westgate	Deputy Chief Executive
Mr Stuart Ash	Finance Director
Mr Geoff Thompson	Commercial Director (Left August 2006)
Mr David Mather	Operations Director
Mr Ian Metcalf	Sales and Marketing Director

The Non-Executive Directors were:

Mr Jamie Pike	Chairman (Appointed October 2006)
Mr Michael Gates	Chairman (Left September 2006)
Mr Richard Holroyd	
Mr Michael Jones	
Ms Jane Cannon	(Left May 2006)
Mr Tim Johnson	

FIXED ASSETS

The financial effect of changes to Fixed Assets during the year are shown in Note 7 to the accounts.

MARKET VALUE OF LAND

The land assets were professionally revalued by GVA Grimley at 31st March 2006. Those sites which are expected to be fully utilised were valued on an existing use basis, sites which are expected to have their activities significantly reduced or curtailed were valued at Open Market Value where this could be determined. Therefore there is no significant difference between the Open Market Value and the book value of land.

DIRECTORS' INTERESTS

No Director held any company directorship or other significant interest which may conflict with their management responsibilities.

PENSION LIABILITIES

Civilian staff are covered by the provisions of the Principle Civil Service Pensions Schemes (PCSPS). Details of how pensions liabilities are treated in the accounts are shown in Note 1F to the accounts on page 26.

CREDITOR PAYMENT POLICY

It is ABRO's policy to comply with the Companies Act 1985, (Miscellaneous Accounting Amendments) Regulations 1996 (SI 1996/189), and the Confederation of British Industry's prompt payment code on creditors.

It is ABRO's policy to pay its suppliers within contracted payment terms or in the absence of specially agreed terms within 30 days of receipt of a valid invoice.

During the year ended 31st March 2007 in excess of 95% of ABRO's payments were made within this policy.

AUDITORS AND COST OF AUDIT

ABRO's annual accounts are audited by the Comptroller and Auditor General. ABRO's auditor is the National Audit Office. The cost of the audit of the Annual Accounts was £70,000 and the audit of the Key Targets was £5,000. No payment was made to the auditor for any other service.

As Accounting Officer of ABRO, the Chief Executive is responsible for the disclosure of relevant audit information and can confirm that:

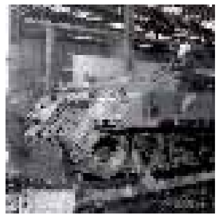
- there is no relevant audit information of which the auditors are unaware;
- he has taken all necessary steps to ensure that he is aware of the relevant audit information; and
- he has taken all necessary steps to establish that the auditors are aware of the information

Peter Moore
Chief Executive
4th July 2007

ABRO I THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSES OF PARLIAMENT

STATUTORY BACKGROUND

I certify that I have audited the financial statements of ABRO for the year ended 31st March 2007 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cashflow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having being audited.



RESPECTIVE RESPONSIBILITIES OF ABRO, THE CHIEF EXECUTIVE AND AUDITOR

ABRO and the Chief Executive as Accounting Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of ABRO's and the Chief Executive's Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, certain information given in the Annual Report, which comprises Company Information, the Chairman's Statement and the Chief Executive's Overview, the Management Commentary and the unaudited part of the Remuneration Report, details of the Board of Directors and the Directors' Report, the Statement of ABRO's and the Chief Executive's Responsibilities and the Statement of Internal Control, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

In addition, I report to you if ABRO has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by HM Treasury regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects ABRO's compliance with HM Treasury's guidance, and I report if it does not. I am not required to consider whether this statement covers all risks and controls, or form an opinion on the effectiveness of ABRO's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent mis-statements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

BASIS OF AUDIT OPINION

I conducted my audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. My audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by ABRO and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are most appropriate to ABRO's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material mis-statement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

OPINIONS

Audit Opinion

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of ABRO's affairs as at 31st March 2007 and of its profit for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder; and
- information given within the Annual Report, which comprises Company Information, the Chairman's Statement and the Chief Executive's Overview, the Management Commentary and the unaudited part of the Remuneration Report, details of the Board of Directors and the Directors' Report, the Statement of ABRO's and the Chief Executive's Responsibilities and the Statement of Internal Control, is consistent with the financial statements.

Audit Opinion on Regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

Report

I have no observations to make on these financial statements.

John Bourn
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SWIW 9SP
5th July 2007

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 2007

	NOTE	2006/07 £'000	2005/06 £'000
Turnover	2	137,209	136,943
Cost of sales	3	(118,882)	(113,427)
Gross Profit		**18,327**	**23,516**
Operating expenses	3	(13,168)	(17,366)
Operating Profit		**5,159**	**6,150**
Loss on disposal of fixed assets		(253)	(1,161)
Profit on ordinary activities before interest		**4,906**	**4,989**
Interest receivable and similar income	5	647	905
Interest payable and similar charges	6	(1,303)	(1,424)
Profit for the financial year		**4,250**	**4,470**
Dividend		(3,900)	(12,000)
Transfer to/(from) General Reserve		**350**	**(7,530)**

There were no discontinued operations in 2006/07 or 2005/06.

The notes on pages 26 to 33 form part of these accounts.

BALANCE SHEET AT 31 MARCH 2007

	NOTE	31-MAR-07 £'000	31-MAR-06 £'000
Fixed Assets			
Tangible Assets	7	**35,008**	**34,678**
Current Assets			
Stock	8	**16,592**	**20,022**
Debtors	9	**32,463**	**31,713**
Cash at Bank and in Hand	10	**11,746**	**11,678**
		60,801	**63,413**
Current Liabilities			
Creditors:			
amounts falling due within one year	12	**(26,468)**	**(28,951)**
Net current assets		**34,333**	**34,462**
Total assets less current current liabilities		**69,341**	**69,140**
Total capital employed		**69,341**	**69,140**
Financed by:			
Public dividend capital		**19,405**	**19,405**
Long term loans	13	**19,389**	**21,542**
Revaluation reserve	14	**14,129**	**12,262**
General reserve	15	**16,418**	**15,931**
Total government funding	20	**69,341**	**69,140**

The notes on pages 26 to 33 form part of these accounts.

Peter Moore, Chief Executive, 4th July 2007

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	2006/07 £'000	2005/06 £'000
Profit for the financial year	4,250	4,470
Unrealised revaluation surplus	2,004	1,632
Total recognised gains and losses relating to the year	**6,254**	**6,102**

The notes on pages 26 to 33 form part of these accounts.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	2006/07 £'000	2005/06 £'000
Reconciliation of operating profit to cash inflow from operating activities		
Operating Profit	**5,159**	**6,150**
Depreciation (Note 7)	1,779	2,939
Permanent diminution in value of Fixed Assets (Note 7)	55	2,107
Decrease in stocks	4,039	4,630
(Increase)/Decrease in debtors	(750)	2,954
(Decrease) in creditors	(2,483)	(9,017)
Net Cash Inflow from operating activities	**7,799**	**9,763**
Cash Flow Statement		
Net Cash Inflow from operating activities	7,799	9,763
Returns on investments and servicing of finance (Note 19a)	(656)	(519)
Capital expenditure (Note 19a)	(1,020)	4,309
	6,123	**13,553**
Dividend paid	**(3,900)**	**(12,000)**
Net cash flow before use of liquid resources and financing	**2,223**	**1,553**
Financing (Note 19a)	(2,155)	(2,154)
Increase/(decrease) in cash and bank balance	**68**	**(601)**
Increase/(decrease) in cash	68	(601)
Cash inflow from movement in debt	2,155	2,154
Change in net funds (Note 19b)	**2,223**	**1,553**
Net funds at 1st April 2006	(12,020)	(13,573)
Net funds at 31st March 2007	(9,797)	(12,020)

The notes on pages 26 to 33 form part of these accounts.

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

1. ACCOUNTING POLICIES

A. Basis of Accounting

The accounts have been prepared in accordance with the Accounts Direction issued by HM Treasury on 18th December 2006, pursuant to section 4(6)(a) of the Government Trading Funds Act 1973 and in accordance with the Government Financial Reporting Manual (FReM). They follow the accruals concept of accounting and the historical cost convention, modified to include revaluation of Fixed Assets and Stocks as set out in notes D and E below. Subject only to compliance with the requirements set out in the Accounts Direction, the accounts also:

a. comply with the accounting and disclosure requirements of Companies Act 1985, insofar as they are appropriate and the disclosure and accounting requirements contained in "The Government Financial Reporting Manual" and any other guidance which the Treasury may issue;

b. comply with generally accepted accounting practice in the United Kingdom (UK GAAP);

c. comply with the accounting standards issued by the Accounting Standards Board except to the extent that they are advised inapplicable by the Treasury

B. Value Added Tax

Since the transition to Trading Fund status on 1 April 2002 the Trading Fund has been separately registered for VAT.

C. Turnover

Turnover represents the invoiced value of sales net of VAT.

D. Fixed Assets and Depreciation

i. Land and Buildings

a. Department Estate is treated as an asset of the Trading Fund although legal ownership rests with the Secretary of State for Defence. The policy reflects the Trading Fund's position as the beneficial user of the property.

b. An Independent valuation of the Departmental Estate assets of the Trading Fund was carried out at 31st March 2006 by GVA Grimley. The valuations were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes Issued by the Royal Institution of Chartered Surveyors. The valuation is on the basis of Existing Use Value except for one site where Depreciated Replacement Cost was adopted and those sites where there is expected to be a significant curtailment or reduction in activities where an Open Market Valuation was adopted.

c. In order to meet HM Treasury requirements for Current Cost Accounting, assets have been revalued annually to reflect their current cost, in the years between professional valuations, using indices provided by the Corporate Financial Controller of the Ministry of Defence.

d. Leasehold property is treated in the manner set out by Statement of Standard Accounting Practice Number 21 (SSAP21). Major refurbishment expenditure is capitalised.

ii. Plant, machinery and vehicles, IT and Comms equipment

a. Plant, machinery and vehicles, IT and Comms equipment are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £5,000.

b. A full valuation of all items of plant, machinery and vehicles held by ABRO was carried out at 31st March 2006 by Messrs GVA Grimley. This valuation was based on Depreciated Reinstatement Cost.

c. The valuation of capitalised plant and equipment including computers has been reviewed annually and indexation rates provided by Corporate Financial Controller of the Ministry of Defence are applied.

iii. Depreciation

a. Freehold land is not depreciated.

b. Depreciation on buildings, plant and equipment and office equipment is calculated to write off the cost or valuation of assets by equal instalments over their estimated useful lives which are periodically reviewed for obsolescence. The lives assumed for the main categories of asset are as follows:

Asset Category	Estimated Useful Life
Buildings	50 yrs
Plant and Equipment	5-20 yrs
Computers	3-7 yrs
Vehicles	5-20 yrs

Where additional Capital Expenditure is made within an existing building the additional expenditure is written off over the remaining life of the existing building.

E. Stocks and work in Progress

i. Valuation

Stocks are valued at the lower of cost or net current replacement cost, if materially different, and net realisable value. For work in progress these costs include both direct costs and attributable overheads based on normal levels of activity. Net realisable value is the estimated price at which stocks can be sold in the normal course of business after allowing for all costs to bring them from their existing state to a finished condition.

ii) Provision for obsolete surplus and defective stocks – significant estimation technique

Provision is made, where necessary, for obsolete, surplus and defective stocks.

The provision is based on 100% provision against the value of any stocks considered to be obsolete. Provision is also made against any surplus stocks.

Surplus stocks are estimated on the basis of projected consumption using historical trends. Stock is analysed into four categories based on frequency of usage. Any stock balance remaining in the two lowest usage categories after five years projected usage is the subject of a 100% provision less a nominal amount for disposal proceeds.

F. Pensions

Civilian staff are covered by the provisions of the Principal Civil Service Pensions Schemes (PCSPS). The PCSPS is an unfunded multi employer defined benefit scheme. However, since ABRO is unable to identify its share of the underlying assets and liabilities it is accounted for as a defined contribution scheme. Contributions are paid to the Paymaster General at rates determined from time to time by Government Actuary. Service personnel are deemed to be on loan to ABRO, which carries no liability for their pension other than insofar as these form a constituent element of the monthly loan service charge paid to the Ministry of Defence for their services.

Full provision for early retirements is normally made in the year of retirement.

G. Foreign Currencies

Assets and liabilities denominated in a foreign currency are translated at the rate(s) of exchange ruling at the balance sheet date. Transactions are recorded at the rate ruling at the time of the transaction. Exchange differences are taken to the Income and Expenditure account.

H. Treatment of Operating Leases

All expenditure incurred in respect of operating leases is charged to operating expenses in the year in which they arise. ABRO has no finance leases.

2. TURNOVER

The analysis of activity by business segment was as follows:

	2006/07 £'000	2005/06 £'000
Sales Direct to MOD	**118,238**	**119,695**
Sales to Third Parties	**18,971**	**17,248**
Total Turnover	**137,209**	**136,943**

All turnover relates substantially to the same class of business i.e. repair, maintenance and overhaul.

There were no discontinued operations in 2006/07 or 2005/06.

3. COST OF SALES AND OPERATING EXPENSES

	2006/07 £'000	2005/06 £'000
Cost of sales	**118,882**	**113,427**
Operating expenses	**13,168**	**17,366**
	132,050	**130,793**

Cost of Sales has been defined as that expenditure which is directly related to services or products being supplied to customers. This will include direct materials and labour and fixed and variable overheads to the extent that they relate specifically to production.

Operating expenses include all costs relating to the general management of the business.

These costs are further analysed by expenditure type as follows:

Cost of Sales and operating expenses

	NOTE	2006/07 £'000	2005/06 £'000
Staff costs	4	63,998	65,809
Supplies and services consumed		53,503	46,690
Accomodation costs		6,956	7,766
Depreciation and impairment charges		1,834	4,960
Operating lease and similar hire purchase rentals:			
Plant and machinery		225	10
Other		820	238
Auditors' Fees:			
Audit		70	67
Non-Audit		5	3
Other expenses		4,639	5,250
Total cost of sales and operating expenses		**132,050**	**130,793**

There were no net gains or losses from foreign currency transactions charged.

4. STAFF COSTS AND NUMBERS

a. Disclosure of information related to Directors is dealt with in the Remuneration Report.

b. The average number of employees during the period was made up as follows:

	2006/07 £'000	2005/06 £'000
Industrial Staff	**1,722**	**1,789**
Non Industrial Staff	**474**	**594**
Service Personnel	**1**	**1**
Agency temporary and contract staff	**101**	**107**
	2,298	**2,491**

c. Total staff costs for the year were as follows:

	2006/07 £'000	2005/06 £'000
Salaries, wages and allowances	49,391	52,233
Social security costs	3,782	3,963
Pension costs	8,074	8,211
Agency staff costs	2,751	1,402
	63,998	**65,809**

One post within ABRO is occupied by a serving member of the Armed Forces. Salary cost for this employee is charged to ABRO by the MoD. Apart from the element included in this charge, ABRO carries no liability for the pension costs of this individual.

5. INTEREST RECEIVABLE

Interest receivable of £647,000 (2005/06 £905,000) shown on the face of the Profit and Loss Account relates to amounts received from balances held in interest bearing accounts with commercial bankers and with the Paymaster General.

6. INTEREST PAYABLE

	2006/07 £'000	2005/06 £'000
Interest Payable on loans wholly repayable within five years	-	-
Interest Payable on loans not wholly repayable within five years	**1,303**	**1,424**
Total interest payable and similar charges	**1,303**	**1,424**

7. TANGIBLE FIXED ASSETS

	FREEHOLD LAND AND BUILDINGS £'000	PLANT, MACHINERY & VEHICLES £'000	IT & COMMS EQUIPMENT £'000	ASSETS IN COURSE OF CONSTRUCTION £'000	TOTAL £'000
Cost or Valuation:					
At 1 April 2006	28,439	5,101	1,354	234	35,128
Additions	-	196	138	686	1,020
Disposals	-	(633)	(124)	-	(757)
Permanent diminutions in value	-	(2)	(51)	(2)	(55)
Revaluations	1,283	146	(32)	-	1,397
Reclassifications	19	67	77	(163)	-
At 31 March 2007	**29,741**	**4,875**	**1,362**	**755**	**36,733**
Depreciation:					
At 1 April 2006	-	353	97	-	450
Charged	750	659	370	-	1,779
Disposals	-	(386)	(118)	-	(504)
Revaluations	-	-	-	-	-
Reclassifications	-	-	-	-	-
At 31 March 2007	**750**	**626**	**349**	**-**	**1,725**
Net Book Value:					
At 31 March 2007	**28,991**	**4,249**	**1,013**	**755**	**35,008**
At 1 April 2006	28,439	4,748	1,257	234	34,678

Valuation

Qualified valuers revalue assets every five years. GVA Grimley carried out an independent valuation as at 31st March 2006. The valuations were carried out in accordance with the Statements of Asset Valuation Practice and Guidance Notes issued by the Royal Institution of Chartered Surveyors. For Land and Buildings the valuation was on the basis of Existing Use Value except for one case where Depreciated Replacement Cost was adopted and three sites where activity levels are expected to be curtailed or significantly reduced for which open market value was used.

For Plant, Machinery and Vehicles the valuation was based on Depreciated Reinstatement Cost.

In order to meet HM Treasury's requirements for Current Cost Accounting, assets are revalued annually to reflect their current cost using indices provided by the Corporate Financial Controller of the Ministry of Defence.

Whole of Government Accounts

No dwellings are included in Freehold Land and Buildings.

Plant, Machinery and Vehicles includes transport equipment with a net book value of £327,000 (2006 £210,000)

8. STOCK

	31-MAR-07 £'000	31-MAR-06 £'000
Raw Materials and Consumables	**12,004**	**18,881**
Work in progress	**7,243**	**5,824**
Provision for obsolete and surplus stock	**(2,655)**	**(4,683)**
	16,592	**20,022**

9. DEBTORS

	31-MAR-07 £'000	31-MAR-06 £'000
Trade debtors	29,624	23,487
Other debtors	2,311	7,828
Prepayments and accrued income	535	398
Provision for bad and doubtful debts	(7)	0
Total Debtors and Prepayments	32,463	31,713

10. CASH AT BANK AND IN HAND

	31-MAR-07 £'000	31-MAR-06 £'000
Cash in Commercial Bank Current Accounts	6,889	5,595
Current accounts with H.M. Paymaster General	4,855	6,081
Cash in Hand	2	2
	11,746	11,678

11. DERIVATIVES

Interest Rate Risk

ABRO finances its operations through a mixture of retained profits and government borrowings. ABRO borrowings are all at fixed rates of interest, no financial instruments are used to manage ABRO's exposure to interest rate fluctuations.

Liquidity Risk

50% of ABRO's borrowings at the year-end mature in more than five years.

Foreign Currency Risk

All foreign currency balances at the year end were translated at the exchange rate in operation at the year end. Any exchange rate differences were taken to the Profit and Loss Account. ABRO has incurred expenditure in foreign currencies and these transactions have been translated into sterling at the exchange rate in operation at the date at which the transaction occurred.

There were no derivatives or financial instruments contracted and no hedging transactions during the year.

ABRO has taken advantage of the exclusion to disclose short term debtors and creditors as per FRS 13.

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31-MAR-07 £'000	31-MAR-06 £'000
Loans repayable within 12 months	2,154	2,154
Trade creditors	9,436	10,265
Other creditors	842	2,058
Value added tax	4,560	4,945
Other taxes and social security	1,326	1,768
Accruals and other deferred income	8,150	7,761
	26,468	28,951

13. LONG TERM LOANS

Government loan, repayable by instalments, and bearing interest at 5.625% per annum.

	31-MAR-07 £'000	31-MAR-06 £'000
Analysis of repayments:		
Between 1 and 2 years	2,154	2,155
Between 2 and 5 years	6,463	6,463
After 5 years	10,772	12,924
	19,389	21,542

Amounts repayable within one year are included in Creditors.

14. REVALUATION RESERVES

	2006/07 £'000	2005/06 £'000
Balance as at 1 April	12,262	16,401
Revaluation of fixed assets	1,397	2,412
Revaluation of stocks	607	(780)
Realised element to General Reserve	(137)	(5,771)
Revaluation Reserve as at 31 March	14,129	12,262

15. GENERAL RESERVE

	2006/07 £'000	2005/06 £'000
Balance as at 1 April	15,931	17,690
Profit for the year	4,250	4,470
Dividend	(3,900)	(12,000)
Realised element of the Revaluation Reserve	137	5,771
Balance as at 31 March	16,418	15,931

16. CAPITAL COMMITMENTS

	31-MAR-07 £'000	31-MAR-06 £'000
Contracted for but not provided for in the accounts:		
Commitments for capital expenditure	199	21

17. CONTINGENT LIABILITIES

There are no contingent liabilities.

18. OPERATING LEASE COMMITMENTS

At 31st March ABRO had annual commitments under non cancellable operating leases as set out below.

	2007 £'000	£'000	2006 £'000	£'000
	Land and Buildings	Other	Land and Buildings	Other
Operating leases which expire:				
Within one year	400	**137**	**0**	**532**
in the second to fifth years inclusive	0	**342**	**400**	**5**
Over 5 years	0	0	0	0
Total commitments	**400**	**479**	**400**	**537**

19. NOTES TO CASH FLOW STATEMENT

Note 19(a) Gross cash flows

	2006/07 £'000	2005/06 £'000
Returns on investment and servicing of finance		
Interest received	**647**	**905**
Interest paid	**(1,303)**	**(1,424)**
	(656)	**(519)**
Capital expenditure		
Payments to acquire tangible fixed assets	**(1,020)**	**(1,197)**
Receipts from sales of tangible fixed assets	**0**	**5,506**
	(1,020)	**4,309**
Financing		
Repayment of long term borrowings	**(2,155)**	**(2,154)**
	(2,155)	**(2,154)**

Note 19(b) Gross cash flows

	AT 1 APRIL 2006 £'000	CASH FLOW IN YEAR £'000	OTHER CHANGES IN YEAR £'000	AT 31 MARCH 2007 £'000
Cash in hand and at bank	11,678	68	-	**11,746**
	11,678	68	-	**11,746**
Debt due within 1 year	(2,154)	-	-	**(2,154)**
Debt due after 1 year	(21,544)	2,155	-	**(19,389)**
Total Debt	(23,698)	2,155	-	**(21,543)**
Net (Debt)	(12,020)	2,223	-	**(9,797)**

20. RECONCILIATION OF MOVEMENTS IN GOVERNMENT FUNDS

	2006/07 £'000	2005/06 £'000
1 April - as previously reported	**69,140**	**77,192**
Profit for year before dividend	**4,250**	**4,470**
Revaluation reserve moment in year	**1,867**	**(4,139)**
Other movement in retained earnings	**137**	**5,771**
Movement in long term loan	**(2,153)**	**(2,154)**
Dividend paid	**(3,900)**	**(12,000)**
Government Funding per Balance Sheet	69,341	69,140

21. RELATED PARTY TRANSACTIONS

The Ministry of Defence is regarded as a related party. During the year ABRO has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent department.

None of ABRO's Board Members, key managerial staff or other related parties have undertaken any material transactions with ABRO during the year.

22. POST BALANCE SHEET EVENTS

The accounts were authorised for issue (defined as the date of despatch by the auditors to the Clerk of the House of Commons or the House of Lords for laying before Parliament) on 17 July 2007.

On 22 May it was announced in both Houses by MoD Ministers that ABRO would merge with the retained DARA businesses to create a new single defence support group with the primary objective of supporting MoD and the Armed Forces. Ministers expect the new Trading Fund to be fully operational by 1 April 2008 therefore work is now underway to determine the future shape, size and management structure of the new organisation. In the meantime, both ABRO and DARA will trade independently during the current financial year 2007/08.

23. LOSSES AND SPECIAL PAYMENTS

There were no losses or special payments made during the year ended 31 March 2007.

24. INTRA GOVERNMENT BALANCES

As at 31 March 2007 the analysis of Debtor and short term Creditor balances was as follows:

	DEBTOR BALANCES £'000	CREDITOR BALANCES £'000
Central Government	28,049	16,085
Local Government	652	1
NHS Trusts	12	4
Bodies External to Government	3,750	10,378
Total	32,463	26,468

These amounts are included in Debtors and Creditors respectively.

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