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Defence Science and Technology Laboratory

Annual Report and Accounts 2014/15

Maximising the impact of science and technology for the defence and security of the UK

HC 93

Defence Science and Technology Laboratory

Annual Report and Accounts 2014/15

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Note: on 1 July 2001, in accordance with the Statutory Instrument 2001 No. 1246, the Defence Science and Technology Laboratory (Dstl) was created as a result of the separation of the Defence Evaluation and Research Agency (DERA); Dstl continuing as the Trading Fund.

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About Dstl

Dstl (the Defence Science and Technology Laboratory) is an executive agency of the UK Ministry of Defence (MOD). Our enduring purpose is to maximise the impact of Science and Technology (S&T) for the defence and security of the UK.

We provide the MOD and wider UK Government with sensitive and specialist defence and security-related S&T research, advice and analysis. This is delivered by both acting as an S&T hub across the wider defence and security community working with partners and suppliers around the world, and working in-house on projects of national security or political sensitivity.

Since we were established in 2001, we have built a world-class reputation, largely due to the expertise and commitment of our staff. Our talented, respected scientists and professionals work with the best people around the world to access the best possible knowledge, skills and technology. We focus on making sure that S&T delivers as much benefit as possible by giving the right S&T advice at the right time and in a way that offers value for money for the taxpayer.

Our portfolio of work has evolved to meet MOD's and the UK Government's changing needs, insuring against future threats and addressing the wider security agenda; our value is demonstrated daily across the full breadth of Government defence priorities and national security challenges. On behalf of our Owner, MOD, we lead the management and delivery of the MOD S&T Programme. The programme accounts for approximately two-thirds of our total sales, and we ensure that around 60 per cent of this funding is spent with suppliers (see page 19 for our income analysis).

Operating as a Trading Fund, our activities are funded entirely by customer contracts from MOD and security sector Government departments and agencies. We own and manage our estate, our Information Technology (IT) infrastructure and our own pay and career structures.

We currently operate from four sites in southern England: Porton Down, Wiltshire; Portsdown West and Alverstoke, Hampshire; and Fort Halstead, Kent. In 2011, we decided to transfer key capabilities from our Fort Halstead site to our Porton Down and Portsdown West sites, and we launched our Helios Project to oversee the move. By bringing together our people and our capabilities, we can continue to deliver our unique services in a more coherent and cost-effective way, in modern facilities that meet modern standards.

Working off-site alongside our customers, partners and suppliers is an integral part of what we do as an organisation. We have staff at Harwell, Oxfordshire, and a significant presence on other MOD sites, including Abbey Wood, Bristol, within the Commands (Air, Land, Maritime and Joint Forces) and in MOD Head Office, London; our formal international, industrial and academic secondment and project-funded placements help to build and maximise our networks and relationships across the S&T community.

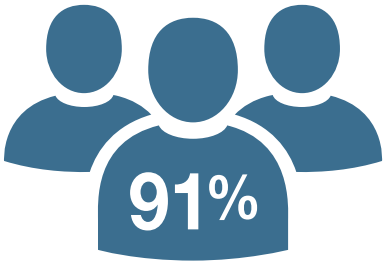
Highlights from 2014/15

£25m
capital investment

524
proposals were received by the Centre for Defence Enterprise

95%
overall customer satisfaction with product delivery

£407m
in MOD S&T Programme sales



of our staff say they are interested in their work

94%
of approved invoices were paid within five days

182
of our staff acted as ambassadors to inspire science in schools

£30m
in Group operating profit

£653m
in sales for the year

More than
300
suppliers signed up to our new digital procurement portal

£17,537
was raised by our staff for the SSAFA charity

18
patents for our world-class technology were filed

Chairman's statement

Sir David Pepper

This is my first Annual Report and Accounts since becoming Chairman of the Dstl Board. In Dstl I have found an organisation that is energetic, forward-looking and successful but one that is facing a great deal of uncertainty in its strategic context.

The recent review of Defence Science and Technology by the Government Chief Scientific Adviser, Sir Mark Walport, gave warm praise to the quality of the work done at Dstl. His report recommended a very different environment for the setting of strategy and requirements. This, together with the quinquennial review of Dstl's Trading Fund status, must be expected to drive substantial changes in the accountability, tasking and commissioning regimes. In addition, the 2015 Strategic Defence and Security Review will shape the research requirements and Dstl's budget. It is therefore unusually hard to predict the organisation's medium-term future.

One consequence of these changes is likely to be a shift in the balance of effort away from meeting urgent operational requirements and back to more strategic research. This will be made possible by the ending of UK operations in Afghanistan. Dstl is already preparing for this change, having for example begun strategic work on disruptive technologies.

One other serious source of uncertainty is the growing difficulty of recruiting and retaining staff with the necessary skills. The steadily increasing gap in pay levels between Dstl and the private sector, and even other parts of the public sector, for those key specialist staff whose skills are in demand elsewhere could lead to a very damaging loss of capability if allowed to continue.

Against all this uncertainty, Dstl can take great pride in what it continues to achieve and in its preparations for the future. The work that has been done on its Science Strategy provides a framework to define the skills to which it will need access to meet new circumstances. The organisational change programme is making management structures and processes more agile and economical. A review of overhead and support costs should generate substantial cost savings and make it possible to reduce the operational damage from any future budget cuts. The accommodation strategy, with the withdrawal from Fort Halstead under the Helios Project at its focus, will produce both long-term savings and greater agility.

Many specific successes are described in this report, and many more are too sensitive to appear here. Overall customer satisfaction levels are high. Those of us who have had the privilege of talking to the members of staff who volunteered to deploy to Sierra Leone to work in the UK Ebola clinic at Kerry Town know just how strong are the dedication and public service ethos of the organisation and its staff.

Finally, I must pay tribute to the work of my predecessor as Chairman, Sir Richard Mottram GCB, who stood down last summer at the completion of his statutory six-year term. Richard made an enormous contribution to the work and leadership of Dstl, and under his chairmanship the Board has become a model of good governance (see our Governance Statement on page 43). He leaves with the warm wishes of all who worked with him.

Sir David Pepper KCMG | Chairman
4 June 2015

Chief Executive's introduction

Jonathan Lyle

I am pleased to introduce our Annual Report and Accounts 2014/15, which documents another successful year for Dstl – we have delivered impact for our customers and sustained strong business performance.

The report outlines the many ways in which we provide science, technology, analysis and advice to solve defence and security challenges. Most important and impactful of these is our Support to Operations. We supported UK Armed Forces throughout operations in Afghanistan, with more than 400 Dstl staff deploying to theatre to provide scientific advice and evaluation in direct support of commanders. Without doubt, the protective equipment, systems and techniques that Dstl designed and deployed saved many lives.

This year, we have supported UK operations against the threat by Islamic State of Iraq and the Levant (ISIL) in Iraq and Syria, drawing on many different areas of specialist expertise. We also provided world-leading expert advice to the UK Government's operation to help tackle the Ebola crisis in West Africa, including deploying expert Dstl staff to Sierra Leone to work, courageously, in a medical diagnostics facility. Closer to home, we continue to provide expert, on-call support to the police and security agencies in the fight against terrorism in the UK.

Our proven ability to respond with agility to unforeseen operations and future threats depends wholly on the investment made over many years, in our people, our facilities and in new technology and know-how. Winning a national Civil Service Skills award was deserved recognition for the careful attention that we pay to the development of our people, particularly as we seek to evolve the mix of our scientific and engineering disciplines to anticipate future developments in technology and shifts in defence priorities.

We continue to transform our organisation in order to be ready for the future, and to improve value for money for our customers. We have taken the first steps in a new programme to reduce our cost-base in order to improve efficiency. We completed a major reorganisation, merging 12 operating Departments into five Divisions on 1 April 2015. This change will enable more coherent and productive delivery to our customers and simpler access routes for our suppliers. We continue to progress our Helios Project to relocate facilities and people from our Fort Halstead site between now and 2018. Last year, we completed a new explosives magazine and began work on the next phase of major construction work. We were delighted that our work over the past three years on smart, flexible working was recognised through a national 'The Way We Work' award.

Our business model is, wherever possible, to work in partnership with companies and universities, with currently half of our turnover being spent with external suppliers. We seek to engage with a very wide range of suppliers in order to tap into the very best science and innovation and to contribute to economic prosperity in the UK. We have made further strides this year to improve our procurement capability, including through the launch of an innovative digital procurement portal R-Cloud, tailored to give us rapid and efficient access to suppliers, especially Small and Medium-sized Enterprises.

None of what we deliver would be possible without our highly skilled and committed workforce, and their in-depth understanding of defence and security problems. I am most grateful for their professionalism and dedication to the defence and security of the UK in these challenging, uncertain and austere times.

Jonathan Lyle | Chief Executive
4 June 2015

Finance Director's review

Mark Alexander

Dstl's financial performance remains strong in an increasingly tight economic climate. Sales decreased marginally to £653 million (2013/14: £661 million), while Group operating profit improved by 15 per cent to £30 million (2013/14: £26 million). Work placed with external suppliers amounted to £308 million (2013/14: £319 million), and capital investment was £25m.

[ ] MOD continued to account for 93 per cent of sales. The majority of MOD sales are attributable to the MOD S&T Programme, where sales increased by £9 million to £407 million.

Sales

Sales for the year were £653 million (2013/14: £661 million), a decrease of 1.0 per cent. A breakdown by key customer grouping is set out in the table below:

	2014/15 £ million	2013/14 £ million
MOD		
Chief Scientific Adviser	407	398
Other	200	219
	607	**617**
Non-MOD		
Wider Government	30	27
Non-Exchequer	10	11
Estates	5	5
Intellectual Property	1	1
Total	**653**	**661**

MOD continued to account for 93 per cent of sales. The majority of MOD sales are attributable to the CSA's S&T programme, where sales increased by £9 million to £407 million (2013/14: £398 million). This represented 62 per cent of total sales (2013/14: 60 per cent).

Within other MOD sales, Defence Equipment and Support (DE&S) decreased slightly to £112 million (2013/14: £115 million) after last year's large increase driven by a surge in work related to future air platform systems and ISTAR (Intelligence, Surveillance, Target Acquisition and Reconnaissance). Sales to Joint Forces Command also decreased slightly to £43 million (2013/14: £44 million) with continued high demand in relation to emerging threats. Business with the rest of MOD decreased to £45 million (2013/14: £60 million), with the main reduction due to non-recurrence of significant project funding in 2013/14 related to future air platforms.

Non-MOD sales increased to £46m (2013/14: £44 million) with strong demand from other UK Government departments and a small decrease in international collaborative work. Our largest UK Government programmes are related to homeland security (mainly through Home Office) and Foreign and Commonwealth Office, and Dstl's contribution to the National Cyber Programme is also within this non-MOD total. Funding for defence and security initiatives remains a public sector priority in the UK, despite continuing budget constraints.

Cost of Sales

Cost of sales decreased by £11 million to £308 million (2013/14: £319 million), representing 49 per cent of all work delivered in the year. The decrease mirrors the small reduction in sales but continues to reflect a desire to deliver a high proportion of work externally, consistent with Government policy in the 2012 Government White Paper *National Security Through Technology*. The prior year figure was boosted by a high proportion of externally sourced work related to the surge in sales for air platform systems work.

Operating Expenses

Operating expenses decreased by £1 million to £315 million (2013/14: £316 million). Staff costs have increased by £3 million to £206 million (2013/14: £203 million) and account for 65 per cent of total operating expenses (2013/14: 64 per cent). This results from a higher average staff cost, applied to an average total workforce 1.4 per cent lower than last year. Non-permanent staff at year-end accounted for 10 per cent of total headcount (2013/14: 14 per cent), with new graduates now being recruited as permanent staff rather than fixed-term appointments.

	2014/15 £ million	2013/14 £ million
Staff costs	206	203
Non-staff costs	100	103
Depreciation and amortisation	16	15
Other operating income	(7)	(5)
Total	**315**	**316**

Non-staff costs decreased to £100 million (2013/14: £103 million). This arose principally from a 5 per cent (£4 million) decrease in underlying infrastructure operating costs and the £1 million profit on sale of Ploughshare Innovations Ltd's stake in P2i, offset by an increase in non-capital design and relocation costs relating to the Helios Project and its associated enabling works at the Porton Down site. The £1 million increase in depreciation resulted from the continuing high level of capital investment.

Other operating income is offset against operating expenses and increased to £7 million (2013/14: £5 million). This principally comprises the recovery of costs for Dstl staff seconded to other Government departments, both in the UK and overseas. The increase was attributable to the value of assets related to forensic analysis that were donated from another Government department.

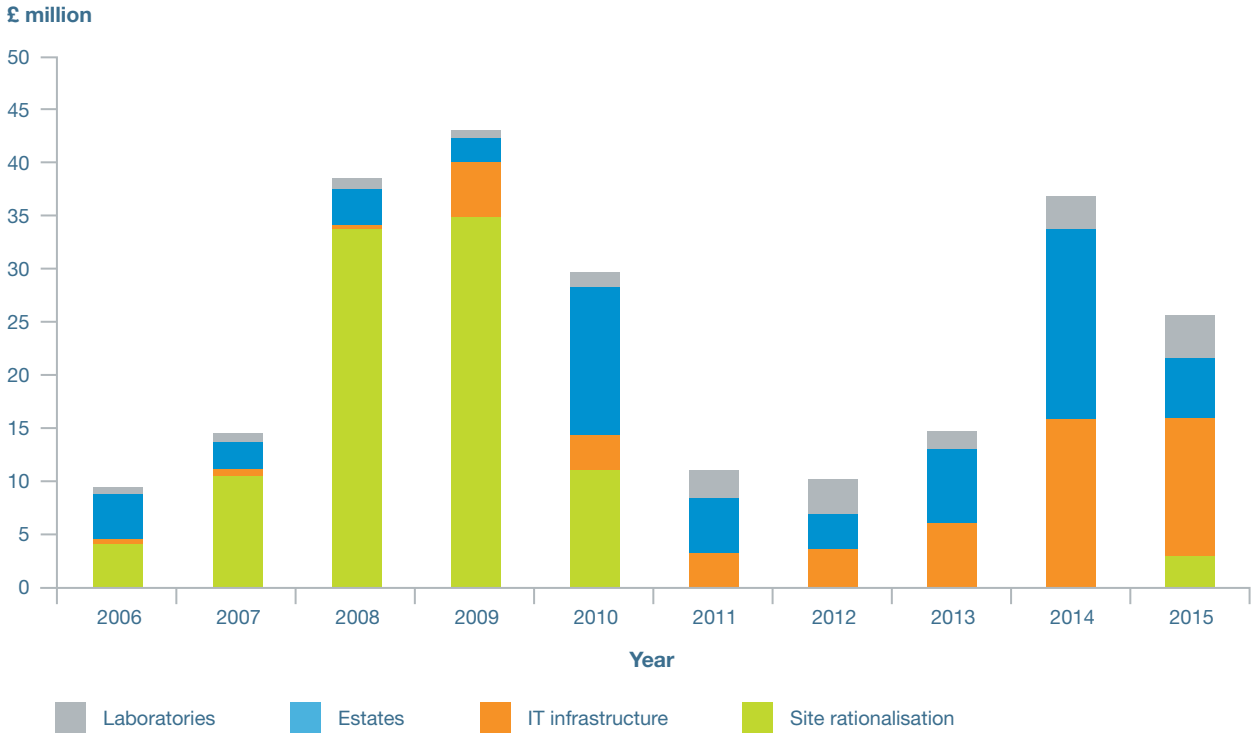
Group operating profit

Group operating profit improved to £30 million (2013/14: £26 million). The sales decrease of £8 million was more than offset by a decrease of £11 million in cost of sales, with the £1 million positive impact of operating cost decreases (as explained in the previous paragraphs) and the elimination of losses in the Group's subsidiary undertaking leading to the overall improvement of £4 million.

Capital investment

Capital investment was £25 million (2013/14: £37 million). The prior year included a total of £16m relating to the upgraded electricity supply and new magazine complex at Porton as key enablers to the Helios Project. 2014/15 saw the completion of both projects at a combined further cost of £3.6 million, plus commencement of work on new scientific facilities (£2.6 million). £8.0 million was spent on a variety of IT application and network hardware replacements and improvements, and £1.2 million to refurbish and upgrade an indoor firing range. Intangible asset additions of £4.8 million included software to support internal cloud-based services, upgrade of operating systems, and improved identity and access controls.

Capital investment



As we seek to increase our engagement with the wider supplier base, in both academia and industry, the ability to collaborate and share facilities with third parties will become increasingly important.

Funding and treasury management

We have been funded by a loan from MOD of £32 million, which was fully drawn down in 2009/10. This followed payment of a £25 million special dividend to MOD in 2008/09. Repayment of the loan commenced in 2010/11 and will be fully repaid over 10 years. The average interest rate on the loan is fixed at 3.9 per cent and the outstanding year-end balance was £16 million. We ended the year with cash and short term investments of £80 million (2013/14: £89 million) reflecting the strong trading performance despite continued capital expenditure. Working capital excluding cash and short term investments increased by £14 million. The most significant factor is an increased level of overdue debt from MOD due to continued inconsistency in customers' use of procurement processes which prevents rapid matching and settlement of invoices. The significant future investment demands related to the Helios Project are expected to be funded principally from internally generated cash.

Supplier payments

During the year, we paid 94 per cent of approved invoices within five days (2013/14: 94 per cent), against the target set by Government of 80 per cent.

Dividends

A dividend of £12.7 million will be paid in respect of 2014/15 (2013/14: £11.0 million), based on Dstl's Return on Capital Employed (ROCE) target of 3.5 per cent.

Events after the reporting date

There have been no significant events since the end of the financial year that affect the results for the year or the year-end financial position.

Accounting policies

These accounts have been prepared under International Financial reporting Standards (IFRS), as adapted for the public sector in the Government Financial Reporting Manual (FReM), issued by Her Majesty's Treasury. There have been no new accounting standards, amendments or interpretations that affect the financial statements and no significant changes in accounting policy.

Outlook

Demand for our services has remained strong, despite the financial constraints of our MOD and UK Government customers. We continue to operate in specialist areas where there are often few private sector suppliers or no effective commercial market. As we seek to increase our engagement with the wider supplier base, in both academia and industry, the ability to collaborate and share facilities with third parties will become increasingly important.

In order to sustain and grow capabilities that contribute to the wider national defence and security agenda, it will be necessary to secure longer term financial commitments to underpin our future planned investment in staff and facilities, and to enable us to meet the identified S&T needs of our customers.

As we continue site rationalisation under the Helios Project, we need to preserve continuity of service for those capabilities that are operationally critical and nationally unique. The construction of new facilities at our Porton Down site is under way, and maintaining the affordability of our planned investment programme remains a key priority.

As described in our *Dstl Corporate Plan 2015 – 2020*, a renewed focus on driving value for money in our operating cost-base has identified a number of opportunities for cost reduction that will be pursued in the coming years. In particular, we are reviewing our key service provision contracts for facilities management and information systems support. Such cost reductions are an essential contribution to our future financial performance and investment aspirations.

After another successful year, we remain in a strong position to meet the financial challenges that lie ahead.

Our accounting information begins on page 65

Strategic Report

Case study: Enhancing weapons technology for the Royal Air Force

Dstl and the defence industry have worked together to improve the air-to-surface weapons capability of the Royal Air Force (RAF) through the development of Paveway IV. The RAF uses its air power not only to provide security to the UK but also to help fulfil the UK's commitment to supporting NATO operations and protecting civilians in war-torn countries. Equipped with the latest global positioning guidance technology, Paveway IV is a state-of-the-art, low-cost, all-weather, 24-hour precision weapon designed to minimise collateral damage.

Dstl has enhanced Paveway IV by developing the Compact Penetrator – a warhead of cutting-edge design, which has the same fit, form and function of the existing weapon but is able to penetrate hardened structures better. The Compact Penetrator's enhanced perforation of such structures offers a significantly improved capability for the RAF, broadening the use of Paveway IV, but with minimal implications and costs for integration.

The Compact Penetrator technology has been developed through the Weapons Science and Technology Centre (WSTC) – a construct between MOD and UK industry for weapons research and technology planning and delivery. Dstl has provided technical expertise, from concept, through design, development and demonstration, while UK industry organisations QinetiQ, Raytheon and Thales have produced the technology.

Following the successful completion of final research trials for the Compact Penetrator, Defence Equipment and Support has placed a contract with Raytheon and QinetiQ to develop the technology in preparation for procurement. Dstl has continued to provide expert advice throughout these later stages as well, supporting Air Command in generating the evidence to propose a dedicated procurement programme that would see this technology on front-line aircraft.

Weapons

Our vision and strategy

Dstl is proud to deliver affordable and effective solutions for our defence and security customers' most critical problems.

Our vision, which was set out in 2013, is to be the first port of call for defence and security-related S&T within Government. We remain committed to achieving this vision, while recognising that the S&T landscape within which we operate continues to evolve in a rapidly changing global context.

Yet despite this, the ability to develop, lead and deliver S&T advantage remains an important part of Government strategies and plans. In addition to the National Security Strategy (NSS) and Strategic Defence and Security Review (SDSR), published in 2010, and the 2012 Government White Paper *National Security Through Technology*, more recent publications such as the 2014 Department for Business, Innovation and Skills' *Plan for Growth: Science and Innovation* all recognise the importance of S&T for the UK in the foreseeable future. Our role is to make sense of these strategies and plans within the context of defence and security, ensuring that we make the most of opportunities, deal with the threats and achieve cost-effective solutions for our customers.

There are three perspectives that we use to help us navigate the rapidly changing world around us. These perspectives (strategic context, customer requirements, and emerging and future needs) were articulated in our corporate strategy (*Dstl Corporate Plan 2014 – 2019*) and are briefly summarised here. All three perspectives point to an uncertain and rapidly evolving future, where S&T will play an increasingly important role in securing the UK and its interests.

Strategic context

To assess our strategic context, we consider the Political, Economic, Socio-cultural, Technological, Legal and Environmental drivers that impact us. The economic situation is well documented and the challenges of reduced budgets is likely to continue over the lifetime of our rolling five-year corporate strategy. The range of global defence and security problems is growing and this, coupled with ever-increasing advances and globalisation of technologies, means that traditional technological advantage is being eroded.

While the above are a threat, they are also an opportunity for us to lead customers' planning, ensuring that the UK's future Armed Forces are equipped with cost-effective yet state-of-the-art capability.

Customer requirements

In addition to the continued support to operations, our key customer drivers are: the drive for cost reduction (by more effective use of capability and better use of people); robust analysis to support key decisions; and, ensuring solutions are delivered across all the Defence Lines of Development (Training, Equipment, Personnel, Information, Doctrine and Concepts, Organisation, Infrastructure and Logistics). There also continues to be a requirement for more of the core research programme to be addressing longer-term disruptive capabilities, recognising that this has been diluted by the necessary focus over recent years on the immediate operational challenge. We continue to provide a coherent set of S&T solutions across defence and security, ensuring that we deliver value for the UK taxpayer.

We continue to provide a coherent set of S&T solutions across defence and security, ensuring that we deliver value for the UK taxpayer.

Emerging and future needs

The future technological landscape for defence and security was detailed in our *Corporate Plan 2014 – 2019*. We defined 19 future and disruptive technologies that align well with other UK Government departments (for example, the Eight Great Technologies announced by the Department for Business, Innovation and Skills) and our allies (for example, NATO's Science and Technology Priorities and the US's Research and Engineering strategy). Ensuring that we enable our customers to harness the advances in these emerging areas, exploiting commercial investment wherever possible, is key to our success in providing a UK defence and security capability that is fit for the future.

Our strategy

At the heart of our strategy are three Strategic Objectives that will take us from where we are today – through the review of our Trading Fund status in 2015 – to where we want to be in 2020. These objectives focus on our interactions with the outside world and how our interactions need to change to enable: our organisation's Positioning; our means of providing real value to customers through Delivery; and, the way we understand all the resources we need, and ensure they are effectively used to support customers' needs, through Capability.

Over the past year, we have clarified what successful delivery of these objectives will look like for our customers, suppliers and our people. We have recognised the scale of organisational change required to achieve our vision and the impact it will have on our people and systems and we have implemented a more strategic approach to managing this transition effectively. We have made good progress in some areas but significant challenges remain.

Acting as an S&T hub for defence and security

To maximise the impact of S&T, we need to understand our customers' problems and the potential for S&T to solve them. With us at the hub of the S&T community, customers will know to come to us first with their problems and our partners and suppliers will come to us first with their solutions. This is the core of our Strategic Objective on Positioning.

Sustaining S&T capabilities for the future

We have a role to play in ensuring the S&T community has the ability to respond to current and future defence and security S&T needs. We do this by growing or sustaining capabilities that must remain within Government while nurturing the development of those that can be managed elsewhere. Against a global backdrop of S&T innovation driven from the commercial sector, success requires careful balancing of our customers' requirements with the need to respond to novel, emerging and disruptive S&T. This is the core of our Strategic Objective on Capability.

Dstl's strategic framework

Purpose	**To maximise the impact of S&T for the defence and security of the UK**		
Vision	**The first port of call for defence and security-related S&T within Government** Agile and Interdisciplinary / Entrepreneurial / Employer of Choice		
Strategic Objectives	**Positioning** Acting as an S&T hub for defence and security	**Capability** Sustaining S&T capabilities for the future	**Delivery** Providing effective solutions to the most critical problems
Critical Enablers	Delivering our Purpose and ensuring we operate efficiently, effectively and safely		

Case study: Supporting the Glasgow 2014 Commonwealth Games

As is the case at any major event, a high level of security was paramount for the Glasgow 2014 Commonwealth Games. With a reputation of providing excellent support to the search and screening operations at large-scale events, Dstl was tasked to assist in Glasgow.

Prior to the Commonwealth Games, Dstl helped to inform the planning for the security screening process, building upon extensive experience from working on the London 2012 Olympic and Paralympic Games. Through rigorous analysis and simulation modelling using data collected at real events, Dstl influenced the design of the screening systems and provided a clear evidence-base to the event organisers, Government and security forces, allowing them to make well-informed security decisions.

During the event, Dstl deployed a team of 10 analysts to work alongside Government, police and military colleagues to help to assure the security screening of spectators, athletes and the workforce entering venues. The team made sure that the level of threat detection was assured, with minimum disruption to the event, for example not causing long queues to build up. Dstl monitored and analysed the security screening, and compiled a report in time for each evening's operations meeting, ready to inform planning for the next day. Such quick turnaround analytical support – completed in only a matter of hours each day – proved to be of great value to ensure tight security was maintained throughout the Commonwealth Games.

Analysis

Providing effective solutions to the most critical problems

The solutions that will have the greatest impact for our customers can come from anywhere. We engage with industry and academic partners in this delivery, only undertaking work in-house for reasons of national security or political sensitivity. This means our people must strengthen relationships with our partners and suppliers, work in open partnership with them and make informed decisions about where to focus effort and when to place work internally. This is the core of our Strategic Objective on Delivery.

In addition to these objectives, we maintain a focus on our Critical Enablers, which include the crucial element of our people. Our people form the lifeblood of our work, and the core of our knowledge and our networks. They are essential for delivering our purpose and our vision effectively, and for achieving success against our Strategic Objectives. We commit to supporting our people in pursuing fulfilling careers and enabling them to work efficiently, effectively and, above all, safely.

Our priorities

In recognition of the scale of organisational change required to achieve our vision, there are a small number of specific areas where we will focus our efforts over the lifetime of our most recent *Dstl Corporate Plan 2015 – 2020*:

- developing new and existing partnerships to sustain the UK's access to world-class S&T to maximise value and impact through integrated teams working across our organisation, industry and academia
- reshaping and resizing our technical capabilities to deliver MOD's capability requirements and the Science Strategy
- embedding a revised operating model to support and enhance the effective delivery of a portfolio, programme and project management approach to delivering our work
- improving commercial skills and awareness to enable effective contract management to ensure we achieve value for money from our supplier base
- delivering our Helios Project and its enabling works to provide a safe and sustainable working environment at Porton Down and Portsdown West for the key capabilities transferring from Fort Halstead
- reshaping and resizing our Functional capabilities to deliver responsive and flexible support to enable safe, secure and effective delivery of our programmes and technical capabilities and the efficient operation of our services
- delivering the required financial performance and internal controls to ensure our sustained viability.

How we measure performance – page 16

Our business model

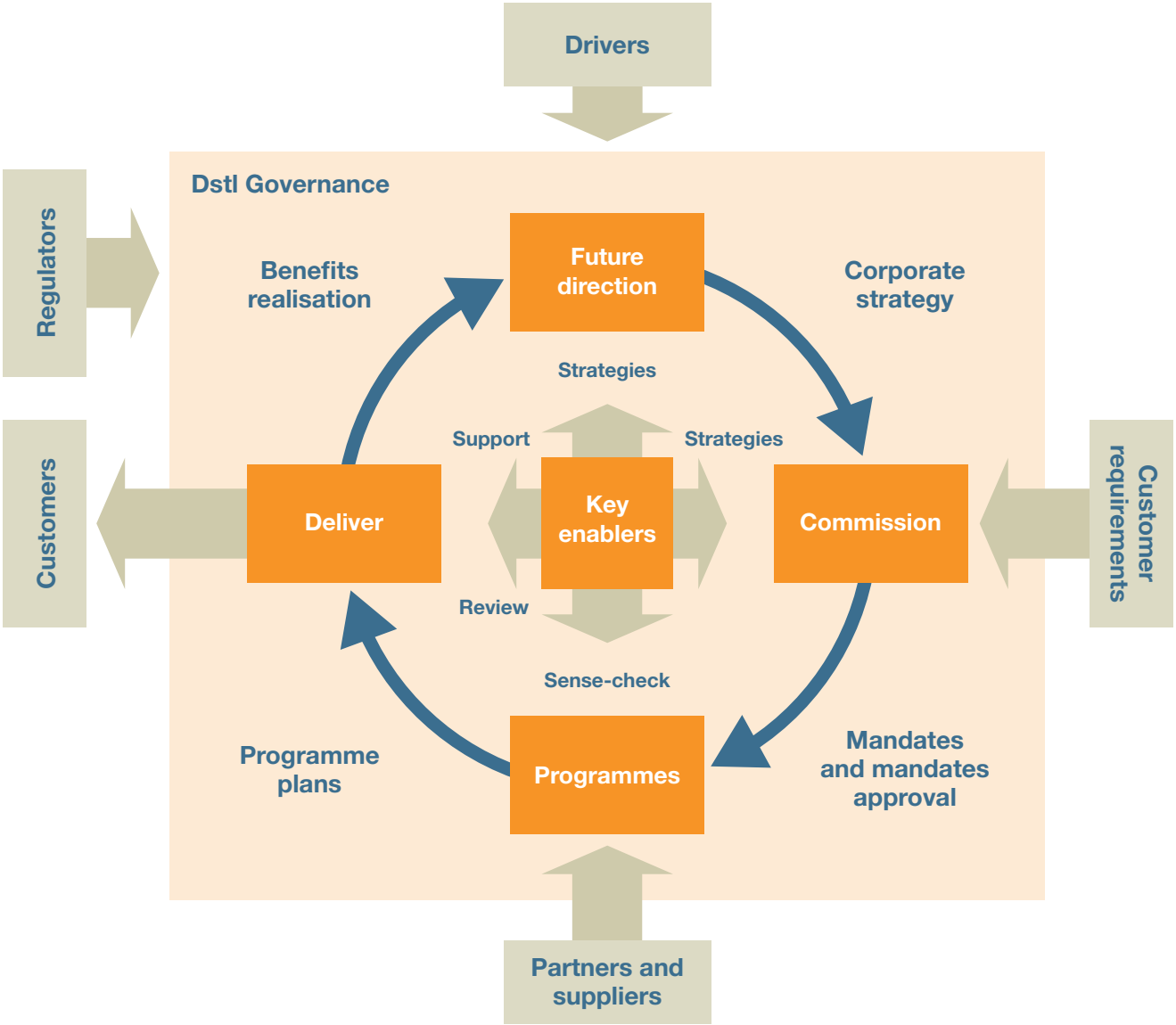
Our talented, respected, scientists and professionals work with the best to achieve the best for our customers.

Dstl's business model ensures that we are able to respond to our customers in the ever-changing environment in which we operate. It encompasses three elements: the way we do business; the way we are organised to do business; and, the way we work together to deliver our customers' needs.

The way Dstl does business – our operating model

We deliver value to a wide range of customers, not just internal to MOD but across Government and internationally. Our commitment to deliver what our customers value is managed within our S&T portfolio lifecycle. By integrating all aspects of decision-making into our operating model, we better reflect the way we do business, and ensure stakeholder support – challenge and buy-in is embedded within it. Being inclusive, transparent and accountable assures the efficient use of resources in delivering customer outcomes.

Our operating model



Case study: Lightening the load for the soldier

British soldiers on patrol carry a large weight burden, from protective equipment to food and water to electronic equipment and more, often in challenging environments. Reducing this burden is an ongoing challenge for MOD and Dstl, with scientists looking at every aspect to improve soldiers' survivability.

The helmet, an essential piece of protection for any soldier on operation, is just one of the areas that Dstl has been working on to reduce the burden. Dstl engineers developed the principles of future helmets to make them lighter while, crucially, retaining the same protective properties against both ballistic threats and bump incidents. This enabled a proof-of-principle helmet to be made using state-of-the-art material, which weighs approximately 20 per cent less than the current Mk 7 but still stands up to the current rigorous performance requirements. Dstl's experts provided independent advice to MOD on how they could set realistic but challenging requirements for industry to meet. These recommendations were incorporated into a recent procurement programme for the Army's very high readiness brigades, meaning Dstl's work will have a lasting impact on personal physical protection. Dstl is helping MOD further develop the industry requirements to make sure they are as realistic, challenging and accurate as possible, ensuring the potential of next generation helmets is maximised.

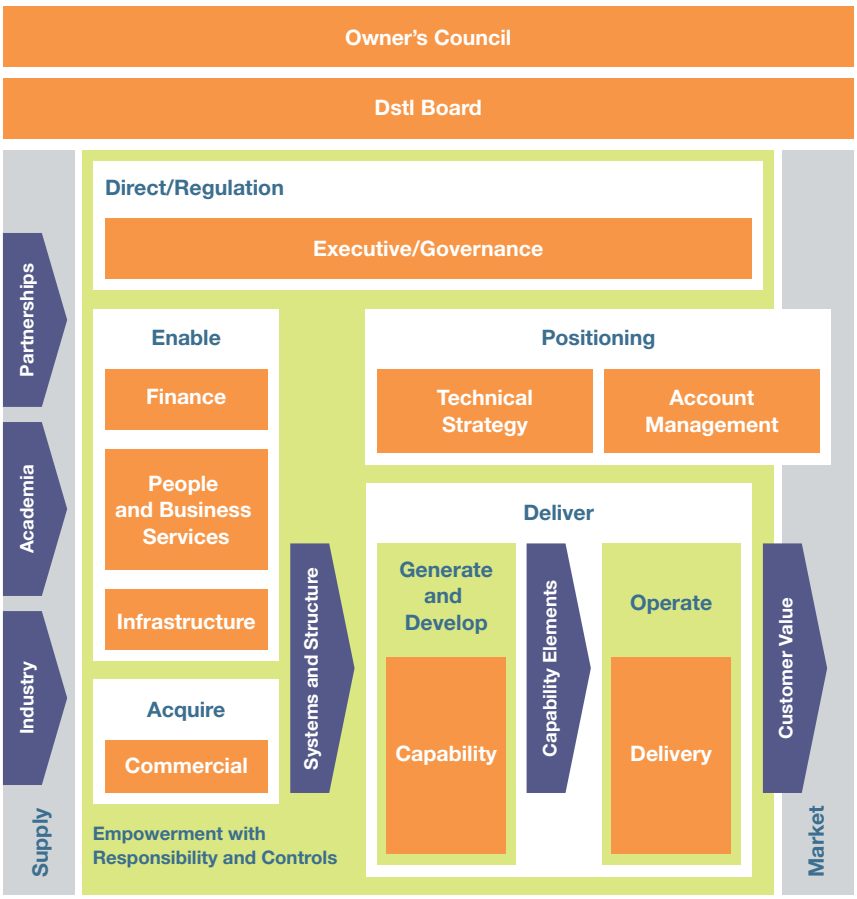
As well as this, Dstl scientists and engineers have also validated the life of those helmets currently in service. When the Mk 7 was introduced in 2009 as an urgent operational requirement for troops in Afghanistan, the long-term shelf-life of the helmet was undefined, with the emphasis on getting the protection to the front line. Dstl has now performed extensive testing of the Mk 7 helmet with the original equipment manufacturer, confirming that the helmet can provide the high standard of protection required for our soldiers for more than five years, saving money for MOD and the taxpayer.

Integrated Survivability

The way Dstl is organised to do business – our organisational model

The contribution of each part of the organisation is crucial to understanding our responsibilities and accountabilities for effective day-to-day operation. Our recently revised Executive Team and its associated directorates collectively contribute to our Strategic Objectives set out in the *Dstl Corporate Plan 2015 – 2020*. Each of our areas has very different responsibilities and measures of success. Some are directly involved in S&T, others are involved in supporting or enabling roles. All of these activities are individually important but in combination deliver a greater effect for our customers through safe and secure delivery of S&T.

Our organisational model



All of the component parts of our organisation are individually important but in combination deliver greater effect for our customers through safe and secure delivery of S&T.

Case study: Understanding cyber risks at sea

The Royal Navy plays a critical role in defending the UK and its interests. This includes maintaining freedom of the seas to protect our economy, preventing conflict, and combating piracy, terrorism, and trafficking. It does this, in part, thanks to technologically advanced and interconnected equipment and infrastructure. However, with this comes greater risk that the systems could fall victim to cyber attack and become compromised or fail to operate.

With the threat of cyber attack an increasing global issue and where attacks can be carried out remotely from anywhere in the world, it is crucial that we understand the risks and put defences in place where necessary. Dstl cyber security specialists have been helping the Royal Navy and key industry partners do just that for the protection of Royal Navy platforms, such as ships, aircraft and submarines, and their supporting functions.

Using various methods of vulnerability assessments, including Dstl's Cyber Defence Capability Assessment Tool (CDCAT®) (see page 20), Dstl has provided greater understanding of the modern cyber risks to the Royal Navy. This extends beyond securing and accessing information, and takes a more integrated look at the overall survivability of platforms. Without this knowledge, robust resilience measures could not be put in place.

Dstl's work has also been instrumental in bringing cyber issues into the mainstream thinking of the Royal Navy's senior command staff, raising awareness of the risks and giving greater understanding of the difference that cyber protection can make – a key strategic aim for the Navy, and one that will make a huge difference in the design and procurement of the technology of the future.

Cyber

The way Dstl works to deliver its customers' needs – our relationship model

Having well-defined relationships supporting our internal and external stakeholders is critical to achieving success in a dynamic and challenging environment. Both our customers and our providers rely on Dstl's ability to communicate and prioritise the demands of supporting operations and of sustaining S&T capability. We do this by ensuring timely and meaningful dialogue with relevant parties. We make it clear to ourselves and to others what we need to do and why we need to do it. Through the application of our relationship model (expressed below through revenue and costs), it becomes easier and simpler for us to achieve our vision to be the first port of call for defence and security related S&T across Government. This aspiration will require strong and vibrant relationships wherever solutions are needed and from wherever they originate.

Our relationship model

Costs

Our Resources (3% retained profit)

Revenue

Our Funding

Case study: Providing support to Lightning II

MOD's acquisition of the F-35B fighter jet (known as Lightning II), along with the Royal Navy's two Queen Elizabeth class aircraft carriers from which the aircraft will fly, is the single biggest acquisition programme in MOD history. Before the new equipment can be used by MOD, it must be shown to be safe according to UK standards by independent technical evaluators. Without properly assured independent evaluation, Lightning II could not be flown in the UK by British pilots, and could not feature on the new aircraft carriers.

In 2011, Defence Equipment and Support (DE&S) tasked Dstl to support the parts of the Lightning II independent technical evaluation that needed to be done within Government. Despite Dstl having no declared capability in this area, this request was testament to the reputation of Dstl's renowned expert staff. Since then, a Dstl technical support team has been established, which has helped DE&S achieve some major milestones for Lightning II going into service.

For example, Dstl's evaluations have supported DE&S in gaining military flight-test permits that allowed UK F-35B operations to go ahead in the United States. This work led to the first three UK F-35Bs being accepted into UK service for testing, and to the launch of the UK Lightning II Operational Test unit, 17 Squadron. Dstl's work has also allowed joint F-35B training operations with the United States Marine Corps, including routine short take-off and vertical landings in preparation for the aircraft's use on the Queen Elizabeth class carriers and on night operations.

In January 2015, Dstl's new airworthiness capability was scrutinised by external auditors, who declared that Dstl's arrangements were "as mature, if not more so, than any other organisation delivering independent technical evaluation today". The auditors recommended that Dstl was awarded 'competent organisation for the purposes of providing airworthiness advice for the in-Government aspects of Lightning II independent technical assessment' status. Dstl's continuing commitment to supporting DE&S on Lightning II has now been confirmed with a new four-year technical support contract.

Platform Systems

Measuring our performance

Every month, Dstl assesses its business performance to ensure we continue to deliver against our vision and our Corporate Plan. Our performance framework includes a detailed performance report, reviewed quarterly by our Board, and a monthly performance dashboard on our intranet for our staff. This year, performance reporting has evolved to reflect organisational changes in our Executive Team and in our Delivery Directorate. A summary of our non-financial performance, relating to each of our Strategic Objectives, is provided below.

This year, we maintained high delivery performance based on delivering to time, to cost and to customer satisfaction. We continued to experience high demand for our expertise; our net income was £345 million compared to £342 million in 2013/14 and total sales were steady at £653 million compared to £661 million last year. Improvement in our procurement capability increased the rate at which we were able to contract externally delivered work – the introduction of R-Cloud (see page 23) provided a faster route to contract with our suppliers. Because we integrated the MOD S&T Programme with all of our customer work, we now measure the proportion of our external delivery across our entire portfolio.

However, in continuing to meet high customer demand, our internal capacity was stretched. Our workforce worked over and above to sustain delivery of the highest priority work, supplemented with a high level of overtime. This year, we saw an increase in permanent staff turnover from 6.5 per cent to 7.4 per cent and a reduction in the percentage of non-permanent staff from 14.4 per cent to 9.5 per cent.

During the year, we prepared for the next stage of organisational changes: we redesigned the way we deliver; continued to progress our Helios Project; and engaged staff in strategic initiatives. These change activities also affected our capacity to deliver. The challenges in engaging staff through organisational change and the restraint on pay and benefits did affect our employee engagement index, which fell three per cent compared to last year.

Our performance evidence

Positioning

Acting as an S&T hub for defence and security, we continued to place a significant proportion of our entire portfolio with partners and suppliers. Although we increased our ability to place contracts, we have not yet seen an increase in the percentage of work we contract externally; the external cost of sales at 48.9 per cent is comparable to 49.9 per cent last year.

	Performance	Threshold
External cost of sales (%)	48.9	> 50

Capability

In safeguarding future S&T capabilities, the size of our workforce remained below that required to deliver against customer demand, falling significantly below budget mid-year. The percentage of our non-permanent workforce also reduced below the

threshold required to sustain our strategic workforce reductions during sustained customer demand. However, our capability expenditure progressed at a similar rate to last year, sustaining our focus on delivery and transformation activity.

	Performance	Threshold
Total staff (Full-time Equivalent as at March 2015)	3,839	> 3,913
Non-permanent staff[1] (%)	9.5	> 12

[1] This includes Service personnel, students, casual staff, short-notice employees, fixed-term appointees, contractors and contracted temporary workers.

[ ] This year, we maintained high delivery performance based on delivery to time, to cost and to customer satisfaction.

Delivery

Customer demand remained at the high level experienced last year. With a decreasing workforce and increased transformation activities, we prioritised the most important work and constrained increasing customer demand in some areas. In doing so, we maintained high delivery to time, to cost and to customer satisfaction on higher priority work.

	Performance	Threshold
Overall customer satisfaction with delivery (%)	95	> 93
Products delivered to time (%)	92	> 85
Projects completed to costs (%)	90	> 85

Critical Enablers

We strive to deliver our Purpose of maximising the impact of S&T on the defence and security of the UK, and to ensure that we are employer of choice. This year, our staff engagement index fell to 57 per cent (2013/14: 60 per cent).

Our staff sickness remained well below the public sector average. Operating safely continues to be our highest priority. We improved our safety performance reporting and processes, and our Health and Safety reportable injuries per 100,000 hours worked reduced to 0.09 compared to 0.14 last year.

Due to the nature of our activities, we continued to face challenges in meeting carbon reduction targets for the Porton Down site in particular. The Helios Project presents a significant opportunity to construct more carbon-efficient buildings. Working in more modern ways, such as flexible working, and by managing our working spaces more effectively is driving greater efficiency in our use of infrastructure.

	Performance	Threshold
Employee engagement index 2014 (%)	57	> 63
Permanent staff turnover (%)	7.4	< 7
Hours lost to sickness absence (%)	2.3	< 2.5
Health and Safety reportable injuries per 100,000 hours worked	0.09	As low as reasonably practicable
Annual Carbon Emissions (tCO_2)	41,079	Target yet to be set

Read more about our people – page 25

Note: All figures quoted in this section are for Trading Fund only.

Providing effective solutions to the most critical problems

Customers and markets

Dstl works with a wide range of customers within the UK Armed Forces, MOD and wider Government. We engage with partners in industry, academia, other Government laboratories and international partners to deliver solutions that will have the greatest impact for our customers.

Through our network of partners, suppliers and our own in-house capabilities, we provide support to all four of MOD's Commands, to MOD Head Office, and to Defence Equipment & Support (DE&S), as well as to a wide range of Government departments and agencies. During the year, the application of S&T has supported operations, underpinned policy choices, helped to deliver capability at an affordable price, and allowed the UK to prepare for the future, all while supporting innovation and growth.

A strong feature of our work has always been our close support to operations. Earlier this year, we continued to provide direct support to UK Armed Forces in Afghanistan right up to the UK's withdrawal in autumn 2014. We continue to develop our capabilities to ensure that they, together with the capabilities in industry and academia on whom we depend, are attuned to support any future operations.

[ ] During the year, the application of S&T has supported operations, underpinned policy choices, helped to deliver capability at an affordable price, and allowed the UK to prepare for the future.

This year, the UK joined the international coalition supporting the Iraqi Government in its battle to counter the threat posed by Islamic State of Iraq and the Levant (ISIL). Our scientific support continues to be provided as our highest priority to protect UK Armed Forces wherever they are deployed.

Investments made by MOD's Chief Scientific Adviser (CSA) in previous years also allowed us, Public Health England (PHE) and industry to build fast reliable Ebola screening kits, which were shipped out to Sierra Leone, Africa, at exceptionally short notice. Recently published data has proved the kits' feasibility in helping tackle the Ebola crisis. Our staff, working in partnership with PHE, also deployed to Sierra Leone to help establish and staff the laboratories where the testing takes place (see page 22).

During the year, we supported policy development and implementation. Demand from all of our customers continues to grow, reflecting the drive for more evidence-based decision-making and moving us towards being a leader in providing analytical support for major Government decisions.

For example, our analysis of the system for recruiting, training and retaining Army Reserves provided MOD Head Office and the Army Recruiting Group with a comprehensive end-to-end analysis of the Reservist application and recruiting process.

We also continue to help customers such as DE&S and Air Command with new capability, for example through project support to Lightning II, the Royal Air Force's next generation combat aircraft (see page 16). From weapons to vehicles and from personnel to policy, S&T continues to build agility into defence while striving to drive cost out.

From supporting innovation and growth in local communities and working with international partners, industry and academia, we remain at the heart of helping to deliver national security today and in the future.

We help to sustain the UK's technological edge over potential adversaries in the future. This year, MOD's CSA made the first significant investment in MOD's disruptive capability programme, seeking to exploit emerging S&T in areas such as quantum. This investment is part of the MOD S&T programme, approximately £407 million, which we are responsible for designing and delivering in conjunction with industry and academia.

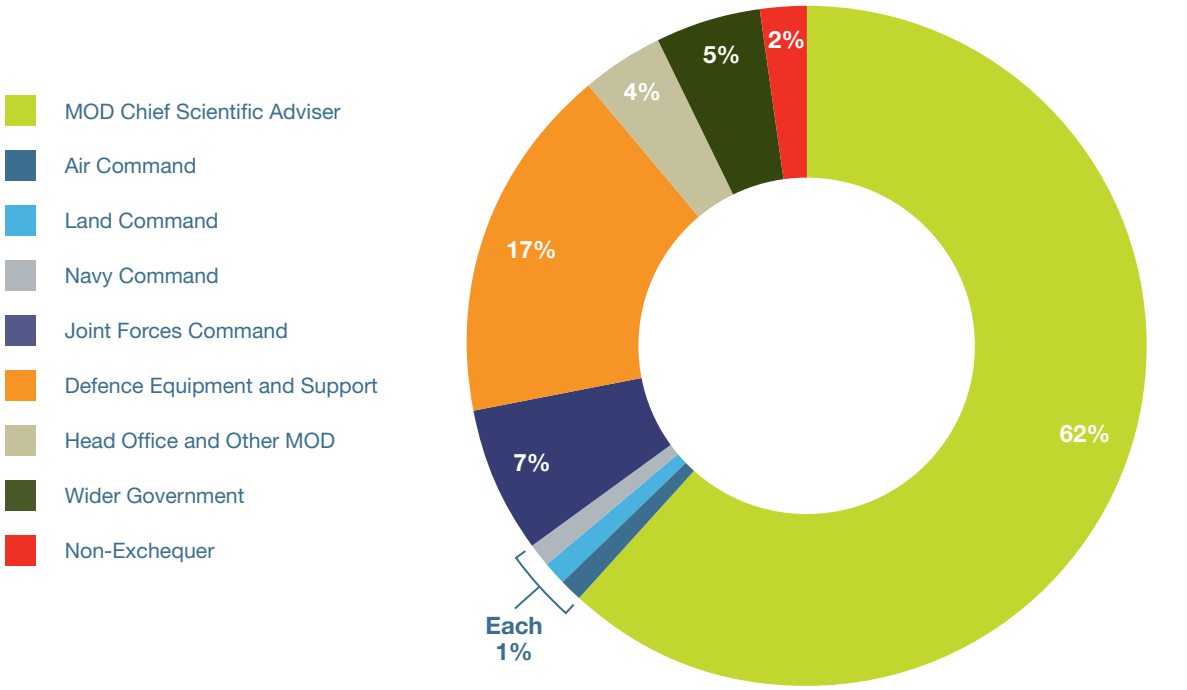
This year, 49 per cent of our entire portfolio has been delivered externally by our partners and suppliers, including major enabling contracts in areas such as weapons and human capability through to direct investment in our most talented graduates, with more than 100 doctorates now funded in UK universities by MOD's CSA.

Through our Centre for Defence Enterprise (CDE), we continue to play a pivotal role in allowing Small and Medium-sized Enterprises (SMEs) to bring the best ideas from the workbench to the Front Line (see page 24). We have also joined the Easy Access Intellectual Property (IP) scheme (see page 22), which is promoting new ways of sharing IP and making it easier for us to work collaboratively with those best placed in industry to exploit MOD's IP.

Along with Ploughshare Innovations Ltd, our wholly owned technology transfer company, we continue to help small, innovative companies grow. We are particularly proud of the announcement of the new science park at Porton Down in conjunction with the Swindon and Wiltshire Local Enterprise Partnership (see page 22).

From supporting innovation and growth in local communities and working with international partners, industry and academia, we remain at the heart of helping to deliver national security today and in the future.

Income analysis 2014/15



Sustaining S&T capabilities for the future

Capabilities and skills

In order for Dstl to address critical S&T problems, our capabilities are aligned to defence and security priorities and provide a balance of delivery for now and for the future. Working with partners and suppliers, we integrate the most appropriate external capabilities into overall delivery.

We have a role to play in ensuring that the S&T community has the ability to respond to current and future defence and security S&T needs. We do this by growing or sustaining capabilities that must remain within Government while nurturing the development of those that can be managed elsewhere.

We consider that S&T capability consists of a combination of five components:

- people – their skills and experience
- relationships – access to networks, working in collaboration and delivering through partnership
- infrastructure – the facilities and equipment needed to deliver
- knowledge – its generation, collation, and exploitation, and access to knowledge
- licences to practice – ensuring that we operate in a safe, legal, and ethical environment.

We deliver in-house the S&T capability for work that must be done in Government – other required capability is delivered from our industrial and academic partners and suppliers, from wider MOD, from across the UK and from allied Governments. S&T capability can be delivered from a combination of these.

Based on our customers' requirements, we have defined nine broad priority capability areas in which we, and our suppliers and partners, deliver benefit to defence and security:

Analysis
Using scientific methods to solve complex policy, planning and operational problems, we help customers to make informed and evidence-based decisions.

Chemical, Biological and Radiological (CBR)
We provide authoritative S&T advice to UK Government on CBR materials and counter the threat associated with them.

Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR)
We develop approaches to improve the integration of networks, sensors and intelligence.

Counter-Terrorism (CT) and Security
We enable a safer Britain through the delivery of S&T in support of current and future CT and security operations.

Cyber
We develop new cyber capabilities to defend our digital assets and to achieve UK security objectives.

Case study: Maximising the benefit of new technology

Dstl technologies are already being used by a number of Government departments but the technologies produced by our scientists also have wide applications in the commercial sector.

A commercialisation opportunity was recognised early in the development of CDCAT®. CDCAT® involves the use of a unique database that provides a logical framework with which organisations and businesses can assess their 'readiness' to defend against cyber threats and identify the risks that need to be addressed.

The tool has now been licensed by Dstl, with the assistance of Ploughshare Innovations Ltd, to APMG International, which has developed it into a commercial product. This licensing arrangement will support the further development and maintenance of the CDCAT® tool as well as bringing financial returns from its commercial exploitation.

The Department for Environment, Food and Rural Affairs (Defra) is just one of the Government departments to benefit from CDCAT. Through using the tool, as well as facilitating workshops and personal visits by Dstl cyber experts to sites across the UK, Dstl helped Defra and water companies understand the challenges of maintaining water supply and quality against potential cyber threats.

Technology Transfer

Case study: Helping security by seeing the unseen

The UK's counter-terrorism strategy aims to reduce the risk of terrorism so that we can go about our lives freely and with confidence. Part of that strategy is to protect against terrorist attacks, which includes being able to detect and identify explosive devices, components or weapons being carried by terrorists before they are used.

Dstl has created a software tool that can help detect explosive devices and weapons, such as guns and knives. The tool provides accurate, near real-time information to the user, helping to give them the situational awareness needed to make a quick security decision and therefore improve security.

The tool, known as EDACT (Enhanced Decision Analysis for Counter Terrorism), works by combining the outputs of multiple sensors, which could be, for example, CCTV, metal detectors and imaging devices, and indicating to the operator the probability that individuals are carrying threat items. By taking in account multiple detection sources, EDACT significantly improves the detection of dangerous items with a high level of accuracy.

Two years of development culminated in a successful trial in November 2014, which attracted observers from the Home Office, the Department for Transport, Metropolitan Police and Centre for the Protection of National Infrastructure, indicating the wide ranging potential uses this technology has.

Furthermore, EDACT is not constrained only to use specific sensors or only to detect specific threats; on the contrary, as new sensors are developed with improved capabilities, EDACT can use them, and as current threats evolve or new threats emerge, EDACT can help detect them, making it a capability with significant future potential.

Counter-Terrorism (CT) and Security

Human Capability
We enable the contribution of the human to be optimised in defence and security capability through the exploitation of S&T.

Integrated Survivability
We use systems-engineering methodology to achieve the best survivability at an affordable cost so that missions can be completed successfully in the face of a hostile environment.

Weapons
We provide S&T advice, assurance and assessment in support of Operational Advantage (superior technology and other forms of battle-winning edge, which increase success in combat and reduce the risk of danger to UK personnel and equipment) and Freedom of Action (effectively operating, maintaining, and refreshing certain capabilities without dependency on others).

Platform Systems
We focus on the application of systems-engineering approaches, primarily to the land, sea and air military platforms, to provide advice and evidence that enables technology integration into the platforms.

S&T futures
To address the rapidly developing S&T domain, our nine priority S&T areas are underpinned by a strong emphasis on S&T futures. Our main focus on S&T futures is led through the Knowledge, Innovation and Futures Enterprise (KnIFE) programme, which is aimed at avoiding technological surprise. Together with the recent shift towards researching 'disruptive technologies' from the Defence Research and Development Board, KniFE provides a pipeline for development of innovative S&T for defence and security purposes.

The right capabilities
This year, MOD's CSA commissioned an independent review of three of our nine key capability areas (Human Capability, Weapons and Integrated Survivability), including the capability held in industry. The reviews gave assurance that the right capabilities were being sustained and developed in the UK to meet future defence and security needs, and that the current capability is fit for purpose.

The findings from these reviews supported a Science Capability Review, chaired by the Government CSA, which looked at the gap between strategy and current defence and security capability in ten different areas.

Technology Transfer
Our world-leading S&T capabilities continue to develop new and innovative technologies and we have a duty to exploit these Intellectual Property (IP) assets to obtain maximum impact and value for the UK.

Since 2005, our technology transfer role has, in partnership with our Intellectual Property Group, been undertaken by Ploughshare Innovations Ltd (PIL), our wholly owned technology transfer company.

Our external networks – page 23

Case study: The best defence is prevention

Since the UK Government joined the fight against the outbreak of Ebola virus in West Africa, Dstl has been supporting this effort both at home and abroad. As one of only three centres in the country able to research Ebola, with world-class facilities and a team of experts in high-containment microbiology, Dstl was naturally involved from the offset.

Dstl was initially called upon to provide advice to MOD to help plan protective measures for UK troops being sent to the area. However, the involvement soon escalated as the spread of Ebola became a global threat and ensuring the defence and security of the UK and its people became a top priority. Alongside Public Health England (PHE) and other Government departments, Dstl worked to contain the virus: the best defence to the UK is preventing it from reaching our shores.

Since October 2014, four teams of expert microbiologists deployed from Dstl to Sierra Leone and are prepared to continue to do so as long as required. Working out of the PHE-run diagnostic field facilities, the deployed scientists have been testing blood samples from people suspected of having Ebola.

Back at home, Dstl Support to Operations analysts have been modelling casualty rates and forecasting bed occupancy to help inform facilities planners how many beds are needed in the MOD treatment centres, to make sure that UK healthcare workers are guaranteed care should they need it, while helping others in Sierra Leone as well.

Furthermore, a novel method of testing blood, jointly developed by Dstl and UK industry company BBI, is ready to be used out in the communities. Requiring only a drop of blood, the simple test allows health workers not trained in taking blood from veins to give a swift point-of-care indicative result to confirm Ebola Virus Disease in individuals showing symptoms. Not only is this helping to reduce the strain on diagnostic laboratories, it makes aid more accessible for people in remote areas.

CBR

This year, we commissioned a review of the benefits PIL has brought for UK PLC. In its report, independent economics consultancy SQW identified significant economic impact from PIL's activities, including:

- the creation of 550 jobs from 2005 to 2013/14
- £44 million in exports to 2013/14, plus a further £179 million forecast to 2017/18
- more than £65 million Gross Value Added (GVA) to 2013/14, plus a further £126 million forecast to 2017/18
- spin-out companies attracted £130 million public and private sector investment, and licensees have invested £30 million into research and development.

In addition to the work of PIL, this year we launched a new scheme to exploit those technologies that may not, for a variety of reasons, be exploitable via PIL. The Dstl Easy Access IP Scheme utilises an approach to licensing IP developed by a number of academic and research-based organisations. The aim of the scheme is to develop closer relationships with academia and industry to put the technology into the hands of those best placed to exploit it. The scheme uses a simple one-page licence that is free to the licensee and, in return, requires the licensee to provide an exploitation plan setting out how they will exploit the technology and secure impact from the underlying research.

Porton Science Park

The Tetricus Business Incubator, based at Porton Down, supports the Government's growth agenda in offering state-of-the-art laboratory facilities and specialist support to new and growing science companies. Tetricus is our joint venture with New Sarum Enterprises and GW West.

In 2014, as part of the Government's announcement of new Growth Deals to help boost local economies, the then Secretary of State for Business, Innovation and Skills visited Porton Down to sign the new Swindon and Wiltshire City Deal that includes investment for a new science park at Porton Down, in association with Swindon and Wiltshire Local Enterprise Partnership (LEP). This will look to move the existing Tetricus Business Incubator into a purpose-built science park within the next few years.

Head of Science and Engineering Profession

Our Chief Executive (CE), Jonathan Lyle, holds an additional role as Head of Science and Engineering Profession (HOSEP) for MOD, championing the careers of civilian scientists and engineers across MOD.

A priority for this year has been science and engineering skills shortages. HOSEP and his team have supported work to address current and future shortages, ensuring that proposed solutions are relevant to civilian scientists and engineers and to the MOD organisations that employ them. They have also provided support to new MOD initiatives, such as the STEM Hub and the Defence Engineering Champion team.

Our CE continues to work alongside HOSEPs from other Government departments to address issues of concern and to implement solutions. This year, there was a need to establish a common approach to continuing professional development. Our approach was praised by the Government Chief Scientific Adviser (GCSA), Sir Mark Walport, as an example of best practice.

Acting as an S&T hub for defence and security

External networks

Case study: Securing against the insider threat

Project4 Technologies Ltd was formed in 2014 after successfully submitting an idea to the Centre for Defence Enterprise. Based at Coventry University and pulling together experts from academia and industry, it received CDE funding for two projects both related to 'insider threats' – a term used to describe attacks from within an organisation.

The first project is related to cyber attacks. Working with the psychology and behavioural science faculty of Coventry University, Project4 has been able to define areas that are indicative of insider attack behaviour through the monitoring of a user's 'digital pattern of life.' It uses a unique algorithm, capable of processing key behaviours, to express threat in a dynamic manner.

For the second project, Project4 developed a personal learning simulator, which was initially developed to help UK forces in Afghanistan identify a potential physical insider attack. Project4 found a way to identify notable behavioural cues that could be used to spot and prevent potential attacks. It has now created a personal learning simulator for use on tablet devices, which is built around a Forward Operating Base created especially for the project.

Project4 Chief Executive Officer Matt Lewis said: "We are truly a CDE-born organisation. Without their vision for high-risk, high-technology solutions, we simply would not have been able to build our business. Today, we have multiple products ready for development and we have also been able to seek out innovations from other suppliers and bring them into our business. Our vision is to become a key defence and security SME. With the support of CDE this vision has become truly possible."

Centre for Defence Enterprise

Effective engagement and working with others is central to Dstl's purpose to maximise the impact of S&T on the defence and security of the UK. As an S&T hub and centre for innovation for defence and security in Government, we want customers to come to us first with their problems, and want partners and suppliers to come to us first with their solutions.

Our engagement with our international partners has continued to be a priority over the past year. We have continued to support and gain significant benefits from multilateral cooperation in NATO and with Australia, Canada, New Zealand, and the USA through The Technical Cooperation Program, while strengthening some of our key bilateral relationships, most notably with the US, France, Australia and Japan. This year, we have seen a steady increase in engagement and an appetite from our partners to undertake more collaborative work, with a shared desire to become increasingly reliant on each other as budgetary pressures impact in other nations as well as in the UK.

Our approach to engagement with industry has continued to evolve, including improving industry access to information via our internet presence and through hosting specific supplier engagement events. In 2014, we began the process with the MBDA group and MOD to transition the UK's missile evaluation facility from within Government to a new joint national centre hosted by MBDA. This will enhance the national capability while creating a more cost-effective and resilient solution.

We have also introduced R-Cloud, which is a new commercial model for the management and rapid placement of our S&T research contracts. R-Cloud offers access to a broader and more responsive supply base, speeding up the placement of contracts with academia and industry through a modern digital marketplace for S&T; more than 300 individual suppliers have signed up to R-Cloud.

We have strengthened our engagement with the national trade associations through formal defence S&T consultative fora, such as the Defence Suppliers Forum Research and Development Group, and the Small and Medium-Sized Enterprise (SME) Group. Discussions are under way with many industry players to align investment in S&T both bilaterally and under the auspices of the Defence Growth Partnership, and the Security and Resilience Growth Partnership. In the SME arena, the Centre for Defence Enterprise has continued to bring in many players new to defence and has shown significant success in taking ideas from such players and exploiting them in the defence environment and more widely (see page 24). This work has helped to position us at the centre of the defence S&T network.

In the academic environment, we have continued to maintain and develop close and productive links with a range of key universities whose S&T capabilities are vital to UK defence research. We have increased the number of PhDs we are funding and continued to work with the Research Councils to ensure defence and security challenges are reflected in some of the research they are funding in universities across the UK. This year, we embedded staff in all seven Research Councils, resulting in more joint calls and mutual benefit. We have also increased the number of visiting positions held by our staff at universities, establishing enduring links.

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Case study: Collaborating at the final frontier

In July 2014, the European Space Agency launched the fifth and final Automated Transfer Vehicle (ATV-5) spacecraft on a supply mission to the International Space Station. ATV-5 carried a huge variety of instruments on board to send data during its re-entry to the Earth's atmosphere in February 2015. Through strong relationships with the United States Air Force Research Laboratory and the Defence Science and Technology Organisation in Australia, who were planning to observe the re-entry, Dstl was able to seize upon this rare occasion to get involved and extend the experiment to cover space situational awareness aspects. The US-UK element contributed to the joint communiqué signed in 2014 to increase science and technology collaboration, of which space research forms a large part.

The ATV-5 re-entry presented the UK with a unique opportunity, never before available to MOD, to study the behaviour of spacecraft objects and materials travelling at hypersonic velocities greater than 10,000 miles per hour. This will enable improved predictions of how weapons, such as long-range missiles, behave in space and to better understand the risk to the UK from re-entry of uncontrolled space debris.

In consultation with other stakeholders such as the UK Space Agency, Dstl quickly took a significant leading role in coordinating the experiment both from a UK and an international perspective, exploiting our extensive relationships across Government and external suppliers. This included working closely with the UK Space Operations Coordination Centre to establish a capability to centrally coordinate the Space Situational Awareness elements of the observation of ATV-5, bringing in the Science and Technologies Facilities Council's radar facility and the Defence Technology Agency in New Zealand for electro-optical observation of the spacecraft. New working relationships were also established with NASA and the European Space Agency, resulting in a number of fresh and effective international partnerships.

Dstl's work also established relationships with academia to allow effective exploitation on the successful collection of data from the event, to complement analysis performed internally in the laboratory.

C4ISR

Our approach has supported focused thematic links, for example in Quantum Technology, and has formed relationships with those defence industries that have a good academic footprint in order to address common defence problems. We have partnered with the Research Councils to fund UK academic teams to collaborate for the first time with US academics in the Department of Defense's Multidisciplinary Universities Research Initiative (MURI).

Across UK Government, we work closely with colleagues on sensitive and specialist S&T. For example, in 2014, we built successful partnerships with a number of Government bodies to deliver technical, operational and strategic cyber assurance advice, to support cyber vulnerability investigations for the UK's Critical National Infrastructure.

Our strategic partners include several other individual public sector laboratories. Working collectively through a partnership with six other public sector laboratories (Interlab), we can take a strategic view of the S&T synergies across animal and plant food sciences, the environment, fisheries, health and safety protection, and defence, security and law enforcement.

Centre for Defence Enterprise

The Centre for Defence Enterprise (CDE) funds innovative research that could lead to a cost-effective capability advantage for UK Armed Forces and national security. It seeks bids for funding from small companies, academia and anyone with an innovative idea that has a potential defence application. Its investments in S&T research are high risk but with a high potential benefit.

CDE opens up defence and security challenges to the widest possible audience of providers, including those new to defence and SMEs. It funds proof-of-concept research through its regular 'Themed' competitions, which cover specific defence and security challenges, and its monthly 'Enduring Challenge' competitions that address the most important problems in defence.

This year, CDE launched nine Themed Competitions, including the first competition in the space area looking for affordable space-based capability, which funded contracts worth almost £1 million. In total, CDE received 524 proposals and funded 113 of these worth a total of £8.6 million this year.

CDE also works with others to help take the projects it funds to market. In February 2015, CDE hosted a Marketplace event to showcase some of the technologies it has funded. More than 20 SMEs backed by CDE had the opportunity to pitch their ideas and early stage products to some of the world's biggest defence companies and other investors. Ideas ranged from ways to combat the cyber insider threat to casualty care on the battlefield. CDE has now also published details of all the contracts it has funded for the past three financial years. Details are available to view in one place online after each competition at www.gov.uk. This has been welcomed by industry who wanted more visibility as to who had been awarded which contract by CDE.

[ ] Our approach to engagement with industry has continued to evolve including improving industry access to information via our internet presence and through holding specific supplier engagement events.

Delivering our Purpose operating efficiently, effectively and safely

Supporting our success

In maximising the impact of S&T on the defence and security of the UK, Dstl places huge importance on its people and on the working environment. We provide staff with well-managed safe and secure places of work that are conducive to productivity while endeavouring to minimise our impact on the environment.

Dstl needs a skilled, knowledgeable and highly motivated workforce to deliver its high impact work. We recruit people with the right skills and aim to keep them working with us by providing interesting work, continuous development and career recognition. Treating people fairly and with respect, we create an environment where people can succeed and where people feel informed about the things that matter to them while giving them the opportunity to have their say.

Our people

Our people are proud of their work and the major contribution they make to national security and defence, and to saving lives. This is reflected in our results from the 2014 Civil Service People Survey, where the value we place on our work remains higher than average for Government.

More than 1,000 graduates from top universities apply to join us every year. To secure the best mid-career people, we exploit opportunities provided by a range of media and channels, including Linked-In. This allows us to source talent directly in specialised target markets and to reduce reliance on traditional advertising. Due to the serious concerns about recruitment and retention of our specialists, especially in areas such as Cyber, we are proactively looking at options around more flexible use of our total pay bill, and at longer-term strategic solutions across the defence sector via our Science, Technology, Engineering and Mathematics (STEM) Hub pilot initiative.

To complement our committed employed workforce, and to cover temporary capacity or to deliver particular niche scientific expertise for which there is no permanent need, we engage a number of Contracted Temporary Workers (CTWs). Identified below and on page 26 are the numbers of our non-permanent staff (contractors) at Dstl who are hired under contingent labour routes. From 1 April 2014 to 10 August 2014, CTWs were hired through an employment business (agency), predominantly via Crown Commercial Services Capita framework; from 11 August 2014, Dstl engaged the CL One Framework for this purpose. CTWs are not employees and do not represent off-payroll appointments to public office, for which there is none at Dstl.

New off-payroll engagements	
New off-payroll engagements, or those that reached six months in duration, between 1 April 2014 and 31 March 2015, for more than £220 per day and that last for longer than six months	81
Of the above, those that include contractual clauses giving the department the right to request assurance in relation to income tax and National Insurance obligations	81
Those for whom assurance has been requested	81
Of which	
Those for whom assurance has been received	81
Those for whom assurance has not been received	0
Those whose contracts have been terminated as a result of assurance not being received	0

Case study: Enhancing the skills of our workforce

Apprenticeships are key to the future talent development of Dstl. As well as a well-established graduate recruitment programme for people starting their career in science, technology, engineering and analysis, Dstl offers apprenticeships in engineering, business administration and laboratory technician roles.

Dstl's engineering apprenticeship programme is now in its seventh year and is going from strength to strength. Currently, there are 19 apprentices on the three-year programme in the electro-mechanical and mechanical engineering disciplines. All apprentices study for a nationally recognised qualification while working alongside their professional colleagues in the workshop.

This year, six engineering apprentices graduated and all have been successfully placed within the organisation; a further six new apprentices joined the programme in September 2014. Past apprentices have gone on to have diverse and successful careers across Dstl in areas such as underwater threats and infrared countermeasures evaluation.

Dstl continues to be a member of The 5% Club, which is a group of public and private sector companies committed to working towards having a minimum of five per cent of members' workforces enrolled on formal apprenticeship programmes, graduate development schemes or sponsored student schemes over the next five years. Currently, Dstl has 204 students on various schemes across the organisation, representing 5.5 per cent of our employed workforce.

Apprentices

All off-payroll engagements	
All off-payroll engagements, as at 31 March 2015, for more than £220 per day and that last longer than six months	135
Of which	
Those that have existed for less than one year	81
Those that have existed for between one and two years	39
Those that have existed for between two and three years	15

At the time of reporting, there were no engagements that have existed for: between three and four years, and between four or more years.

Off-payroll and on-payroll engagements of board members and/or senior officials with significant financial responsibility	
Individuals that have been deemed board members and / or senior officials with significant financial responsibility between 1 April 2014 and 31 March 2015	18

This figure is on-payroll engagements. There were no off-payroll engagements of board members and/or senior officials with significant financial responsibility.

Building and rewarding a high-performing workforce

This year, in line with Civil Service Employee Policy guidance, we embedded its new performance management framework. The introduction of a 'must improve' category has led to a positive focus on identifying and supporting poorer performers. While rewarding our highly committed people has been challenging in a period of pay constraint, we have continued to promote our very attractive total reward package. Our people value this for flexible working, access to chartership, training and development and overseas opportunities, as well as for the exciting, interesting and impactful work they undertake.

Developing all our talent to be the best they can be

Our people clearly value our learning and development opportunities, and appreciate this ongoing investment in their careers. In conjunction with Civil Service Learning, we are providing comprehensive Change Leadership training to equip Line Managers with the skills to lead their teams through the changes needed to take us into the future. Our commitment to talent development was recognised in 2014 when we won the prestigious Civil Service Award for our Accelerated Systems Skills Programme.

Our commitment to diversity and inclusivity

We actively promote inclusion of colleagues with protected characteristics as set out in the Equality Act. Our Diversity Action plan, which is regularly reviewed by our Executive Team to ensure its delivery, is supported by four active Diversity Support Networks with 100 volunteers. For the past two years, December has been designated Inclusion Month, when we celebrate diversity through a series of information, support and promotional events. We also recently launched support for our staff with high-functioning autism, and their colleagues.

We operate the 'Two Ticks' scheme by interviewing all disabled applicants for our vacancies who meet essential job criteria. We make resonable adjustments during the assessment process and during employment to accommodate all our people.

As a Trading Fund of MOD and part of the Civil Service, our people policies, procedures and employment contracts are in line with the Civil Service Management Code; these reflect and promote the fundamental principles of the Human Rights Act 2000.

Employee Engagement Champions

To increase the opportunity for our people to share their views and suggest improvements in the way we work locally and across Dstl, we have an Employee Engagement Champion network. This network shares best practice across the organisation and works with management teams to increase opportunities for employees to have their say, beyond our annual staff survey.

Off-site working

This year, we have been working to understand the needs of our approximately 250 people who work away from our core sites. We have launched a new externally accessible website, Collaborate, which provides useful and up-to-date information exclusively for off-site workers. In recognition of the fact that working away can be disruptive, we provided additional financial support to off-site workers this year, as well as solutions and clarity of processes for rewarding, retaining and recruiting staff in locations that require our people to be flexible and adaptable.

Our working environment

We recognise the need to provide an optimum environment, facilities and infrastructure for our people, customers and those who come to work alongside us in the delivery of our business. Our focus for the past year has been on the development and adoption of Smart Working principles in line with the Government's The Way We Work initiative.

We recognise the need to provide an optimum environment, facilities and infrastructure for our people, customers and those who come to work alongside us in the delivery of our business.

Our approach to embracing Smart Working won a Civil Service Corporate Leadership Award and we have been able to greatly improve the experience of our staff through the use of wireless technology, allowing us to work seamlessly within and away from the office environment, taking some of the pressures off our infrastructure and improving our plans as a Green organisation; additionally, Smart Working offers a better work-life balance for our staff.

Work continues on our major infrastructure investment the Helios Project, which will deliver new facilities at Porton Down to accommodate our capabilities being relocated from Fort Halstead. Concept design activities are well under way on three of the investments and construction has started on the fourth.

In parallel with Helios, we have completed the first large-scale investment at Porton Down with the completion of our new explosives magazine facilities and the commencement of the design of our new chemistry facilities that will bring our operations at Porton Down up to date, in line with Helios timescales.

We have continued to modernise our approach to knowledge management and completed the introduction of new business software that has enabled more efficient operation and better information sharing in-house.

Working safely

This year, we began a large organisational change programme, which has created the opportunity to 'set the bar' for high safety performance and standards in line with the Secretary of State's Health and Environmental Policy (H&SEP) Statement. A positive health and safety culture needs to be at the core of every successful organisation and our main attention has centred around the safety leadership skills and competencies of members of our Executive Team and Duty Holders.

It is our people who deliver our business goals and we attach great importance to the continued health, safety, welfare and development of our workforce and to minimise the distress and disruption caused by any injuries or work-related illnesses that may occur.

Our Sustainability Report begins on page 30

Case study: Teaching the art of verbal judo

In 2012, NATO forces in Afghanistan were experiencing a high number of 'insider attacks', where members of the Afghan army were attacking their fellow soldiers, including International Security Assistance Force members. Dstl rapidly joined forces with the British Army to find ways to prevent these attacks from happening, creating a world-leading capability, with the number of attacks dropping dramatically since Dstl's involvement.

Dstl set up a dedicated team of analysts, comprising experts from fields such as anthropology, psychology, physiology, theology, historical analysis and behavioural sciences as well as military advisers and support to operations specialists. Every single insider attack was analysed and trends identified to explain common factors and motivations – often a complex mix of cultural and societal elements.

Supporting the Army with procedures founded on scientific advice, Dstl designed and developed a training package for use in Afghanistan. This equipped soldiers with the understanding of different cultures and practices, and gave them the skills to prevent situations from escalating into attacks. This technique soon coined the title of 'verbal judo!'

Dstl's training package can be tailored and applied to any theatre and elements are now taught to personnel preparing to deploy for training duties and contingency operations and for the 300 British personnel remaining in Afghanistan in advisory roles until 2020. The tools and techniques to prevent insider attack are therefore as important as ever.

Extending beyond the military, the Hampshire Police have been taught the verbal judo technique and it has already proven to be useful for early conflict-resolution, helping police officers defuse situations where experience dictates they would have escalated. This success is growing across the country with police forces in other counties eager to sign up, ensuring the legacy of this life-saving work continues.

Human Capability

Our accident rates remain very low, with a reportable accident rate of 0.09 per 100,000 hours worked. We will now look to further improve our Safety Management System and health and safety culture by reviewing our safety committee arrangements, continuously improving our performance indicators and striving for the higher levels of Safety Maturity in line with MOD policy.

We have robust, regularly reviewed and externally assessed resilience plans surrounding our operations, particularly given the high-hazard work we do and the critical national assets we own and operate for the UK. As we move our operations under our Helios Project, these plans are continuously revised in anticipation of our future consolidated operations at Porton Down.

Working securely

Our need to protect our people, infrastructure and information in an uncertain world remains paramount. We maintain a proactive approach to threat management, balancing perceived risk against the impact of mitigations. We have focused recently on an education campaign about the threat to our information, security and Information Systems by a member of our own workforce – insider threat – to ensure our Line Managers act appropriately. Additionally, the opportunities and threats of social media have led to raising awareness for our workforce about the professional and private use of websites such as Facebook and LinkedIn.

Working sustainably

Environmental: We have continued to maintain an Environmental Management System (EMS) in accordance with ISO14001:2004, which has been externally verified during a certificate of renewal audit in June 2014 and a first surveillance visit in December 2014. The audits verified our continuing commitment to preventing pollution and ensuring our legal compliance.

We are actively developing a programme to reduce our consumption of utilities and our carbon footprint. Our key drivers are to reduce our reliance on fossil fuels for operational energy, to reduce our consumptions of natural resources including water, and to improve a sustainable culture through behavioural change.

We are piloting changes to our infrastructure with LED lighting, greater use of water-saving devices, and adjusting heating and ventilation systems to ensure optimum running efficiency. At the same time, we are improving our utility metering and monitoring of our significant consumers to set specific operational targets to reduce unnecessary utility consumption.

Sustainable procurement: We continue to apply the MOD Sustainable Procurement Policy (SPP) to our activities. In line with our ISO14001 accreditation action-planning, we are seeking to further our approach to sustainable procurement across the business starting with a clear internal strategy; the MOD SPP provides the baseline for our approach. However, while this approach may work well in a standard procurement environment where we are purchasing goods to enable the running of the business (tangible goods), it works less well where we are procuring significant S&T intellectual effort and research (intangible goods). Therefore, our strategy is intended to create a culture of sustainable procurement across the whole business including our suppliers. The key points from our strategy are:

- we will, as a minimum, apply the MOD SPP
- we will follow sustainable procurement routes where they make good business sense
- we will embed sustainable procurement within our processes
- we will ensure our procurement activity is outcome-focused with well-defined deliverables that cover environmental, social and economic issues providing opportunities for SMEs and other diverse suppliers.

Biodiversity: We are working closely with Natural England to achieve 'Favourable Condition' status for our Site of Special Scientific Interest (SSSI) at Porton Down, as part of Government Bio-Diversity 2020 targets. Porton Down constitutes one of the largest uninterrupted tracts of semi-natural chalk grassland in Britain. The SSSI, which comprises 1,519 hectares, supports rare grassland and scrub communities, together with significant populations of nationally rare plants, invertebrates and birds. We are also leading a major Stone Curlew conservation project; last year, Porton Down was the most successful breeding site in the Wessex region, due to improved species surveillance, innovative ecological research and implementation of sound practical methodologies. Historic interests of our estate are being addressed with a long-term programme designed to halt any deterioration of ancient monuments caused by natural events.

Electric vehicle charging pillars at Dstl Porton Down.

Travel: In realising our Green Travel Plan, this year we successfully secured funding from the Office of Low Emission Vehicles to install electric vehicle charging pillars at our core sites. Although primarily installed to support a fleet of electric vehicles for business travel, the infrastructure will also be available for staff and visitors wishing to travel to our sites by ultra-low emission vehicles.

Following a comprehensive review of vehicles used for business travel, we also introduced a fleet of low emission diesel pool cars to minimise spot hires. This has enabled us to reduce our reliance on spot hires and reduced our cars to a below average CO_2 rating of 140 grams per km driven.

In May 2014, our employees participated in a month-long commuter challenge, competing against other businesses of similar employee size throughout the south of England. All of our sites scored highly in the challenge, regularly being placed in the top three in our regions.

Charities: As a defence organisation, we are particularly keen to support charities that help military personnel and their families. Last year, we completed our three-year support to the Help for Heroes charity, which raised £69,876 and was enough to sponsor a bedroom at the Tedworth House Recovery Centre, Tidworth, Wiltshire. This financial year, we began a three-year commitment to raising funds for SSAFA (Soldiers, Sailors, Airmen and Families Association). Money continues to be raised through a huge variety of activities: Christmas and Easter fairs; cake sales; competitions; raffles; fancy dress; individual/group donations; stalls; and, a spring ball. These activities, together with collecting tins in all our communal areas, raised £17,537 this year. In November 2014, we also supported the Royal British Legion poppy appeal, which raised a further £1,024.

Education outreach: Around 180 of our employees are directly supporting the Government's Science, Technology, Engineering and Maths (STEM) agenda as STEM Ambassadors. They work in schools to raise aspirations for STEM careers – encouraging young people to enjoy the STEM subjects and to consider pursuing a STEM career. In 2014, they supported 72 events in local schools and in our local communities, spending around 150 days of Dstl time and meeting more than 5,500 students aged five to 18. Leading hands-on activities in primary and secondary schools, our STEM Ambassadors help teachers make the STEM subjects fun; they share their career experiences with aspiring school-age students, advising on the career pathways into various STEM professions. Our Ambassadors have also supported local and regional STEM events, alongside other STEM-based industries, allowing pupils to consider the defence applications of STEM subjects.

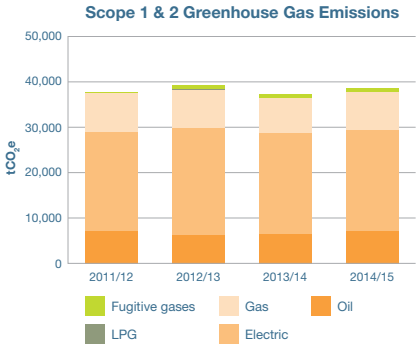
Dstl Sustainability Report 2014/15

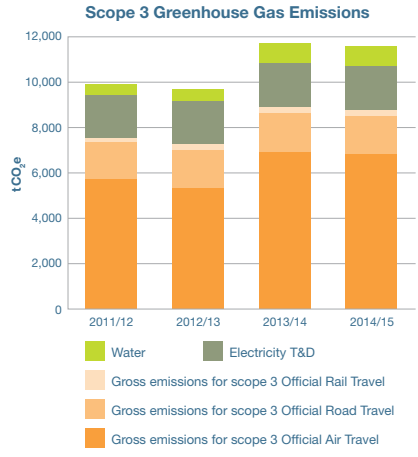
This report, for the year ended 31 March 2015, is produced in line with the latest public sector reporting requirements as detailed in the Government Financial Reporting Manual (FReM) and in Public Sector Annual Reports: Sustainability Reporting Guidance 2014/15. This report has been internally audited by Dstl's Facilities Management Function, (see Notes 1 to 3 on page 32). We actively encourage sustainable working and have undertaken a range of green commuter and business travel initiatives. Target-setting and monitoring is overseen by the our Sustainability Steering Group, which includes senior representatives from the relevant areas and our Sustainability Champion (who is a member of the Dstl Executive Team). Sustainability performance is monitored on an ongoing basis and is embedded in our performance reporting (see page 17). The following report provides a breakdown of our sustainability performance in the key areas.

Greenhouse gas emissions

Greenhouse gas emissions		2011/12	2012/13	2013/14	2014/15
Non-financial indicators (tCO_2e)	Gross emissions for scopes 1 and 2 energy				
	Oil (Note 4)	7,127	6,287	5,904	6,978
	Electricity consumed (Note 5)	21,931	23,669	22,317	22,468
	Gas	8,481	8,423	7,753	8,686
	LPG	100	61	123	121
	Diesel	347	549	320	372
	Fugitive Gases	117	705	879	872
	Total gross emissions for scopes 1 and 2 energy	**38,102**	**39,693**	**37,296**	**39,496**
	Gross emissions scope 3				
	Business travel (Note 6)	8,058	7,870	9,302	9,080
	Electricity transmission and distribution (Note 5)	1,874	1,870	1,908	1,921
	Water (Note 7)	367	414	546	535
	Total gross emissions for scopes 1, 2 and 3	**48,401**	**49,847**	**49,052**	**51,032**
	Net emissions for scopes 1 and 2 energy	38,102	39,693	37,296	39,496
	Net emissions for scope 3	10,299	10,154	11,756	11,535
Financial indicators (£'000)	Expenditure on energy	£7,144	£7,142	£6,367	£6,306
	Expenditure on official business travel	£7,621	£7,727	£9,555	£9,942
	Total expenditure on energy and business travel	**£14,766**	**£14,869**	**£15,922**	**£16,248**

Graphical Analysis





Targets and narrative: We have been working hard to achieve the 2015 Greening Government Targets. The central target was to reduce greenhouse gas emissions by 25 per cent, from a 2009/10 baseline, from the whole estate and business-related transport. We have made significant progress due largely to our Helios Project and improved energy monitoring and tracking, which has helped to pinpoint opportunities for efficiencies. We are now part way through our Helios Project and have adopted full 80 per cent flexible desking on one of our sites, with another in progress. This is helping to ensure greater energy efficiency per head both now and in the future. As forecasted in previous years' sustainability reports, we did not achieve the Greening Government Target reduction by 2015 but we will achieve it when the Helios Project is completed, which is scheduled for 2018. See page 29 for information on our biodiversity action planning.

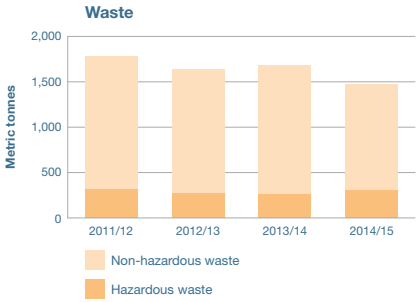
Direct impact commentary: Our main direct impacts are electricity and fossil-fuel consumption. Our specialist laboratory work inherently requires a significant level of electricity consumption but focus continues on replacing the older more inefficient plants. In the face of significant opposition, work has ceased on taking a wind turbine project through the planning process to reduce reliance on centrally generated energy.

Overview of indirect impacts: Electricity transmission and distribution has been split out from electricity consumption and is now shown under scope 3, and CO_2 associated with the supply and treatment of water is also included. Significant national and international travel is required to support operations. High customer-driven demand and improved data collection in respect of low-cost air fares have both contributed to the higher reported emissions for 2014/15 and the previous year. State-of-the-art video conferencing continues to be used widely across the business, which helps to reduce the amount of travel for routine inter-site meetings.

Waste

Waste			2011/12	2012/13	2013/14	2014/15
Non-financial indicators (t) (tonnes)	**Total waste**		**1,777**	**1,642**	**1,701**	**1,479**
	Hazardous waste internal incineration solid		190	162	207	126
	Hazardous waste internal incineration wet		79	34	8	20
	Hazardous waste – external disposal		40	71	61	162
	Hazardous waste – total		309	268	276	308
	Non-hazardous waste	Landfill	167	127	106	118
		Reused/recycled	1,052	1,005	1,078	849
		Internal incineration solid	0	0	0	0
		Incinerated/energy from waste	248	243	242	204
		Composted	0	0	0	0
		ICT Equipment (Note 8)	0	0	0	0
Financial indicators (£'000)	Total disposal cost		£389	£309	£347	£395
	Hazardous waste – total disposal cost		£329	£244	£190	£289

Graphical Analysis



Targets and narrative: We are currently recycling or reusing 91 per cent of our waste arisings – significantly exceeding our, MOD's and wider Government's targets. Future increases will be challenging given the already high level of recycling/reuse, although we will continue to deliver further improvements wherever possible, for example, we have recently removed waste paper bins across some of our estate and introduced dry mixed recycling bins to encourage recycling at source.

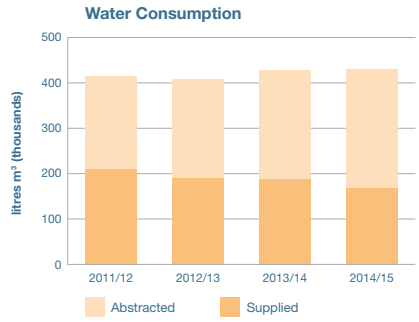
Direct impacts commentary: The main direct impacts of waste relate to business outputs and, in recent years, to construction and site development activities. We also produce quantities of hazardous waste that are either incinerated on site in accordance with Environment Agency approved standards, or disposed of via approved external suppliers. Increases in hazardous waste going for external disposal in 2014/15 are due to demolition activity at our Fort Halstead site.

Overview of indirect impacts: We continue to work with our strategic partner, Serco plc, to ensure that an efficient and effective waste disposal process is operated across our sites, based on sorting at destination rather than at source. Staff are encouraged to minimise waste wherever possible.

Finite Resource Consumption – Water

Finite Resource Consumption – Water			2011/12	2012/13	2013/14	2014/15
Non-financial indicators	Water consumption (m^3)	Supplied	210,902	191,291	188,635	165,954
		Abstracted	204,314	217,711	230,665	254,774
Financial indicators (£'000)	Water supply costs		£901	£1,113	£1,375	£1,876

Graphical Analysis



Targets and narrative: Water and sewerage services are delivered via the wider MOD Project Aquatrine contract for two of our three core sites. This contract has a number of targets to reduce leaks and improve infrastructure but the achievement of these are not under our direct control.

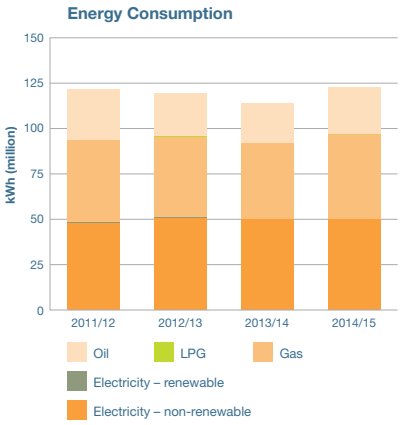
Direct impacts commentary: Our major impact in terms of water consumption is the reliance on local abstraction at one of our sites, which is controlled by Environment Agency licences. Water consumption is closely monitored to ensure that current and future requirements are sustained. Abstracted water volumes for 2014/15 are higher than anticipated and we are working with Project Aquatrine to find the underlying reasons for this.

Overview of indirect impacts: We continue to work with our partners to ensure that water is used efficiently and effectively as part of ongoing operations. Our workforce is encouraged to report any leaks or inefficiencies in local areas.

Finite Resource Consumption – Energy

Finite Resource Consumption – Energy			2011/12	2012/13	2013/14	2014/15
Non-financial indicators	Energy consumption (kWh)	Electricity – non-renewable	48,514,372	51,451,762	50,096,086	50,434,508
		Electricity – renewable	2,925	4,145	4,385	3,343
		Gas	46,090,211	45,775,057	42,134,973	47,197,533
		LPG	14,388	8,764	17,696	17,379
		Oil	28,251,840	23,550,447	22,092,749	26,128,486
Financial indicators (£'000)	Total energy expenditure		£7,144	£7,142	£6,367	£6,306

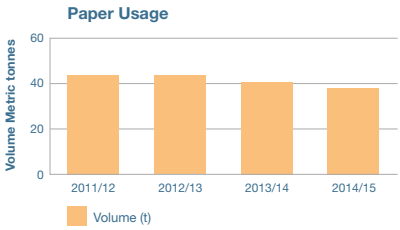
Graphical Analysis



Finite Resource Consumption – Paper

Finite Resource Consumption – Paper			2011/12	2012/13	2013/14	2014/15
Non-financial indicators	Volume (t) (Note 9)	Total	43.96	43.72	40.71	37.92
Financial indicators (£'000)	Total paper expenditure		£57	£56	£48	£43

Graphical Analysis



Targets and narrative: We are working towards the Greening Government target regarding paper-use reduction. Over the past seven years, we have reduced paper use by more than 32 per cent, although it must be recognised that much of our output is demand-led by our customers so it may not be always possible to maintain current consumption, or reduce usage further. See page 28 for information on our sustainable procurement activities.

Direct impacts commentary: We purchase our paper via Crown Commercial Services contract arrangements and have centralised our internal process for ordering and controlling the use of paper. This has had a positive affect on stock levels and enables pockets of high usage to be quickly identified.

Overview of indirect impacts: New technology and the steady move to a paperless office environment are indirectly influencing the reduction in our paper usage. We operate a comprehensive Electronic Records System and make extensive use of Microsoft SharePoint in support of service delivery and corporate functions.

Notes:

1 Our Sustainability Report has been prepared in accordance with guidance laid down by HM Treasury in public sector sustainability reporting published at www.gov.uk/government/publications

2 The energy emissions data in this report relates to our operations from three core sites in the UK. We also have tenanted accommodation on one small MOD site – emissions from this site are reported as part of the wider MOD Sustainability Report. We also have a minor number of small tenanted areas in commercially owned properties that are not included in this report. Emissions relating to our strategic partners of their supply chains are not included.

3 Emissions accounting includes all scope 1 and 2 emissions along with separately identified emissions related to scope 3 emissions, which include official travel. Defra conversion rates have been used throughout – where relevant, conversion rates for previous years have been amended to reflect the latest Defra guidance. Where new information has become available, previous years' data has been amended.

4 Oil for the current and previous reporting years has been split between heavy and light types except for 2011/12, which has been reported as a single average of both fuel types.

5 Electricity emissions split between consumption, and transmission and distribution.

6 Business Travel from 2013/14 includes European low-cost airline travel. During 2014/15, we introduced additional data capture reporting processes on European low-cost airlines, which has captured greater accuracy on flight miles travelled. Previously it was booked in a fragmented way so was not included. Air Travel carbon conversion factors now include radiative forcing.
7 Carbon Emissions associated with the supply and treatment of water now included in line with latest guidance.
8 We dispose all of our Information Technology equipment via the MOD Defence Disposals Agency. This information is collated by MOD and is not included in this report.
9 Paper usage and expenditure data relates to our supplies procured via Government contracts. Additional paper is also used by our strategic supply chain partners but this has not been included as the volumetric data is not available.

Our Strategic Report describes Dstl's high-level aspirations, its intentions, and its performance in a way that is fair, balanced and understandable.

Our annual report and accounts

As a Trading Fund, Dstl is required to prepare and publish an Annual Report and Accounts, following audit by the Comptroller and Auditor General (see page 66). The Dstl Board has approved this report before it was laid before Parliament, in accordance with the Government Financial Reporting Manual (FReM), Managing Public Money and any applicable HM Treasury instructions.

Our approach to the structure and content of our report is in line with the objectives and scope of the FReM, which is an interpretation of the Companies Act 2006 for the public sector context. The information presented from page 10 to page 33 is our Strategic Report and I believe that we have described our strategic information and our business and performance in a way that is fair, balanced and understandable. I hope you have found this information helpful to your understanding of our high-level aspirations and intentions, and about our performance over the past financial year.

More information follows in our Remuneration Report on pages 35 to 40, in our Directors' Report on pages 42 to 64, and finally in our detailed Accounting Information, which starts on page 67.

Jonathan Lyle
Chief Executive
4 June 2015

Remuneration Report

Our leadership

Dstl Board and Executive (for 2014/15)

The Dstl Board provides the strategic leadership for Dstl in delivering its objectives. It provides a forum for independent, non-executive, support and constructive challenge to Dstl's Chief Executive and his Executive Directors.

The Board

Sir David Pepper KCMG	Non-Executive Chairman	Appointed to the Board 01 August 2014
Sir Richard Mottram GCB	Non-Executive Chairman	Completed term of appointment 31 July 2014
Elisabeth Astall	Independent Non-Executive Director	-
Gerard Connell	Independent Non-Executive Director	-
Dame Wendy Hall	Independent Non-Executive Director	-
David Grant	Independent Non-Executive Director	-
Carole Tolley	Non-Executive Director (MOD)	-
Jonathan Lyle	Chief Executive	-
Peter Thompson	Deputy Chief Executive	Former role to 31 December 2014
	Deputy CE/Technical and Strategy Director	Role with effect from 01 January 2015
Mark Alexander	Finance Director	-
Richard Brooks	Programme and Delivery Director	Former role to 31 December 2014
	Delivery Director	Role with effect from 01 January 2015
Christine Hewitt	Human Resources Director	Former role to 31 December 2014
	People and Business Services Director	Role with effect from 01 January 2015
		Appointed to the Board 26 November 2014

The Dstl Executive provides day-to-day leadership and management to ensure that Dstl's strategic direction is appropriate to meet the scientific requirements of our customers. It ensures that Dstl operates safely and securely by reviewing performance and managing risks, and monitors business delivery and financial performance.

The Executive

Jonathan Lyle	Chief Executive	-
Peter Thompson	Deputy Chief Executive	Former role to 31 December 2014
	Deputy CE/Technical and Strategy Director	Role with effect from 01 January 2015
Mark Alexander	Finance Director	-
Graham Balmer	Infrastructure Director	-
Andrew Bell	Chief Technical Officer	Appointment ceased 31 December 2014
Richard Brooks	Programme and Delivery Director	Former role to 31 December 2014
	Delivery Director	Role with effect from 01 January 2015
Christopher Gibson	Accounts Director	Appointment ceased 31 December 2014
Heather Goldstraw	Head of Technology Delivery	Appointment ceased 31 December 2014
Jennifer Henderson	Operations Director	Appointment ceased 31 December 2014
Christine Hewitt	Human Resources Director	Former role to 31 December 2014
	People and Business Services Director	Role with effect from 01 January 2015
Nicholas Joad	Programme Director	Appointment ceased 31 December 2014

Directors' Remuneration Report

Remuneration policy

The following remuneration policy refers to the employment of Dstl's Directors. Four Directors employed during the year are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. Their bonus arrangements fall under SCS rules rather than the Dstl performance-award system. There is a fifth Director who is an SCS member but she is on secondment from MOD and is paid by MOD. Her remuneration is set by MOD.

The remaining Executive Directors are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl staff. The Non-Executive Directors are not Dstl employees but, apart from one who is employed by MOD, they are paid a fee for their services.

Performance conditions

Directors who are subject to SCS terms and conditions are also subject to the SCS performance conditions. The remaining Executive Directors are subject to the Dstl performance management rules.

Service contracts

The Constitutional Reform and Governance Act 2010 requires Civil Service appointments to be made on merit on the basis of fair and open competition. The recruitment principles published by the Civil Service Commission specify the circumstances when appointments may be made otherwise.

Unless otherwise stated, the officials named in this report hold appointments that are open-ended. Early termination would result in the individual receiving compensation (except in cases of misconduct) as outlined in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commission can be found at www.civilservicecommission.org.uk

There were no awards made to past senior managers.

Dstl Board remuneration

	Salary Band 2014/15 £'000	Salary Band 2013/14 £'000	NCPA* 2014/15 £'000	NCPA 2013/14 £'000	Fee 2014/15 £'000	Fee 2013/14 £'000	Pension benefits 2014/15 £'000	Pension benefits 2013/14 £'000	Total 2014/15 £'000	Total 2013/14 £'000
Sir David Pepper[1]					15-20				15-20	
					25-30				*25-30*	
Sir Richard Mottram[2]					10-15	35-40			10-15	35-40
					35-40				*35-40*	
Elisabeth Astall					15-20	15-20			15-20	15-20
Gerard Connell					15-20	15-20			15-20	15-20
Dame Wendy Hall					15-20	15-20			15-20	15-20
David Grant					15-20	15-20			15-20	15-20
Carole Tolley[3]										
Jonathan Lyle[4]	125-130	150-155					42	5	170-175	155-160
		125-130								*130-135*
Peter Thompson[5]	80-85	80-85	5-10	5-10			-2	6	85-90	95-100
Mark Alexander	90-95	90-95	5-10	5-10			35	38	135-140	135-140
Richard Brooks	85-90	80-85	5-10	5-10			44	0	135-140	90-95
Christine Hewitt	75-80	25-30	5-10				13	3	95-100	25-30
		70-75								*70-75*

This information is subject to audit. *Figures in italics denote full-year equivalent salary*

*Non-consolidated Performance Award (NCPA). NCPAs have been awarded as indicated for 2014/15. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules. Fees have been paid as indicated for 2014/15.

The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Dstl Board.
There was no non-cash element of the remuneration package.

[1] Sir David Pepper joined Dstl on 1 August 2014.

[2] Sir Richard Mottram left Dstl on 31 July 2014.

[3] Carole Tolley has received no fee; she represents MOD as a Non-Executive Director. This is a related party with which Dstl has material transactions. See Related-Party Transactions at Note 27 to the accounts (page 92).

[4] Jonathan Lyle was appointed Chief Executive in March 2012 following an open competition with an advertised salary for the post of £140k. In line with the rules that MOD was then applying for a successful internal Civil Service applicant, his salary was initially set by MOD within the £100-105k band. MOD reviewed its policy in summer 2013 to bring it into line with Cabinet Office pay guidance. As a result, his salary was revised and fell within the £125-130k band. This salary was effective from the date of his appointment and he received backdated pay during 2013/14.

[5] The final salary pension of a person in employment is calculated by reference to their pay and length of service. The pension will increase from one year to the next by virtue of them having an extra year's service and by virtue of any pay rise during the year. Where there is no pay rise, the increase in pension due to extra service may not be sufficient to offset the inflation increase – that is, in real terms, the pension value can reduce and will show a negative value.

Relationship between the highest-paid Director and the workforce median

	2014/15	2013/14
Band of Highest Paid Directors' Total Remuneration	£125k - £130k	£150k - £155k
		£125k - £130k
Median Total Remuneration	£35,437	£34,991
Ratio	3.60	4.36
		3.64

Dstl is required to disclose the relationship between the remuneration of the highest-paid director in its organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid Director in Dstl in the financial year 2014/15 was £125k - £130k (2013/14: £150k - £155k). This was 3.60 times (2013/14: 4.36) the median remuneration of the workforce, which was £35,437 (2013/14: £34,991).

In both 2013/14 and 2014/15, no employees received remuneration in excess of the highest-paid Director. There are two median calculations for 2013/14 as a result of the Chief Executive's backdated pay and the profile of the workforce. See Footnote 4 on page 37.

Total remuneration includes salary, non-consolidated performance-related pay, and severance payments. It does not include employer pension contributions, compensation payments and the cash equivalent transfer value of pensions.

Dstl Board pension provision

	Real increase in pension *[and related lump sum at pension age]*	Total accrued pension at pension age at 31/03/15 *[and related lump sum]*	Cash equivalent value at 31/03/14*	Cash equivalent value at 31/03/15	Real increase in cash equivalent transfer value as funded by employer
	£'000	£'000	£'000	£'000	£'000
Jonathan Lyle	2.5-5	75-80	1280	1380	36
Peter Thompson	0-2.5	20-25	343	359	-3
	[0-2.5]	*[65-70]*			
Mark Alexander	0-2.5	15-20	201	243	22
Richard Brooks	0-2.5	30-35	514	571	30
	[5-7.5]	*[100-105]*			
Christine Hewitt	0-2.5	20-25	426	459	10
	[0-2.5]	*[70-75]*			

This information is subject to audit.

*The actuarial factors that are used in the Cash Equivalent Transfer Value (CETV) calculation were changed during 2014. This means that the CETV in this year's report for 31 March 2014 will not be the same as the corresponding figure shown in last year's report.

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the Premium Civil Service Pension Scheme, all Directors belong to the Classic or Nuvos Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See Employee Information at Note 7 to the accounts (page 77).

Dstl Executive Committee remuneration

	Salary Band 2014/15 £'000	Salary Band 2013/14 £'000	NCPA* 2014/15 £'000	NCPA 2013/14 £'000	Pension benefits 2014/15 Nearest £'000	Pension benefits 2013/14 Nearest £'000	Total 2014/15 £'000	Total 2013/14 £'000
Jonathan Lyle	125-130	150-155			42	5	170-175	155-160
		125-130						*130-135*
Peter Thompson[1]	80-85	80-85	5-10	5-10	-2	6	85-90	95-100
Mark Alexander	90-95	90-95	5-10	5-10	35	38	135-140	135-140
Graham Balmer	70-75	70-75	5-10	5-10	20	10	100-105	90-95
Andrew Bell[2]	55-60	70-75	5-10		12	11	70-75	80-85
	70-75						*80-85*	
Richard Brooks	85-90	80-85	5-10	5-10	44	0	135-140	90-95
Christopher Gibson[3]	55-60	75-80			12	7	70-75	80-85
	75-80						*90-95*	
Heather Goldstraw[4]								
Jennifer Henderson[5]	50-55	70-75	5-10	5-10	11	56	70-75	135-140
	70-75						*85-90*	
Christine Hewitt	75-80	25-30	5-10		13	3	95-100	25-30
		70-75						*70-75*
Nicholas Joad[6]	50-55	70-75			14	41	65-70	110-115
	70-75	*70-75*					*85-90*	*110-115*

This information is subject to audit. *Figures in italics denote full-year equivalent salary / NCPA*

*Non-consolidated Performance Award (NCPA). NCPAs have been awarded as indicated for 2014/15. NCPAs are paid based on Performance Evaluation Criteria scores that are awarded in line with the performance management rules.

The salary bands set out above relate only to emoluments paid during the period of each Director's membership of the Dstl Executive Committee.

No Executive Committee members, key managerial staff or other related parties have undertaken any material transactions with Dstl during the year.

There was no non-cash element of the remuneration package.

[1] See footnote 5 on page 37.

[2] Andrew Bell left the Executive Committee on 31 December 2014.

[3] Christopher Gibson left the Executive Committee on 31 December 2014.

[4] Heather Goldstraw is an inward secondee from MOD. She is paid by MOD – SCS Pay Band 1 (£63,000 - £117,800). Dstl was invoiced for her services at a total cost of £63,348 for the period from 1 April 2014 to 31 December 2014 when the appointment ceased.

[5] Jennifer Henderson left the Executive Committee on 31 December 2014.

[6] Nicholas Joad left the Executive Committee on 31 December 2014.

Except for payments made to MOD for the secondment of Heather Goldstraw, no amounts were payable to third parties for services of a senior manager.

Dstl Executive Committee pension provision

	Real increase in pension *[and related lump sum at pension age]* £'000	Total accrued pension at pension age at 31/03/15 *[and related lump sum]* £'000	Cash equivalent value at 31/03/14* £'000	Cash equivalent value at 31/03/15 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Jonathan Lyle	2.5-5	75-80	1280	1380	36
Peter Thompson	0-2.5	20-25	343	359	-3
	[0-2.5]	*[65-70]*			
Mark Alexander	0-2.5	15-20	201	243	22
Graham Balmer	0-2.5	25-30	351	383	11
	[0-2.5]	*[30-35]*			
Andrew Bell	0-2.5	20-25	316	341	7
	[0-2.5]	*[60-65]*			
Richard Brooks	0-2.5	30-35	514	571	30
	[5-7.5]	*[100-105]*			
Christopher Gibson	0-2.5	25-30	572	609	10
	[0-2.5]	*[85-90]*			
Heather Goldstraw[1]					
Jennifer Henderson	0-2.5	15-20	229	239	5
	[0-2.5]	*[50-55]*			
Christine Hewitt	0-2.5	20-25	426	459	10
	[0-2.5]	*[70-75]*			
Nicholas Joad	0-2.5	15-20	264	278	9
	[0-2.5]	*[50-55]*			

This information is subject to audit.

*The actuarial factors that are used in the CETV calculation were changed during 2014. This means that the CETV in this year's report for 31/03/2014 will not be the same as the corresponding figure shown in last year's report.

Pension information is provided by MyCSP, the administrators of Civil Service Pensions. With the exception of Jonathan Lyle, who belongs to the Premium Civil Service Pension Scheme, all Directors belong to the Classic, Classic Plus or Nuvos Civil Service Pension Schemes. All schemes are part of the Principal Civil Service Pension Scheme. See Employee Information at Note 7 to the accounts (page 77).

[1] See footnote 4 on page 39.

The number of persons of each sex who were Directors of the company; the number of persons of each sex who were senior managers of the company and the number of persons of each sex who were employees of the company as at the end of the reporting year were:

Status	Male	Female	Total
Director	8	4	12
Senior manager[1]	8	3	11
Dstl Level 8[2]	95	13	108
Employee	2456	1201	3657
Total	2567	1221	3788

[1] Senior managers are the members of the Dstl Senior Leadership Team, who are not Executive or Non-Executive Directors.

[2] The majority of leaders within Dstl are Level 8.

Jonathan Lyle
Chief Executive
4 June 2015

Directors' Report

Statement of Dstl's and the Chief Executive's responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973, the Treasury has directed Dstl to prepare for each financial year a statement of accounts 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 Dstl and of its profit, changes in taxpayers' equity 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 accounts on a going-concern basis, unless it is inappropriate to presume that Dstl will continue in operation
- disclose that the Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which Dstl's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that Dstl's auditors are aware of that information.

The Treasury has appointed the Chief Executive as Accounting Officer of Dstl. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, for keeping proper records and for safeguarding Dstl's assets, are set out in Managing Public Money published by HM Treasury.

Governance Statement

As Accounting Officer, I, Jonathan Lyle, the Chief Executive of Dstl, have responsibility for maintaining a sound system of corporate governance and internal control that supports the achievement of Dstl's Purpose, role and Strategic Objectives, while safeguarding the public funds and MOD assets for which I am personally responsible. Our corporate governance and control arrangements are explained in more detail below, with the headings broadly aligned to the key components of the Internal Control Integrated Framework developed in 2013 by the Committee of Sponsoring Organisations of the Treadway Commission.

Corporate governance

We have an extremely robust corporate governance framework in place to ensure that we continue to deliver against our Purpose and Strategic Objectives.

Our governance arrangements comply with HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments (2011) and, where appropriate, the Financial Reporting Council's UK Corporate Governance Code (2014).

Dstl's governance framework

Dstl was established as an Executive Agency of MOD in 2001. We operate as a Trading Fund, following both Government and commercial best practice, for which the Secretary of State for Defence has ultimate responsibility. This is in accordance with our Trading Fund Order (updated May 2011).

The Secretary of State for Defence delegates our day-to-day ownership responsibilities to the Minister for Defence Procurement (Min(DP)) but remains accountable to Parliament for our overall performance. As such, Min(DP) is responsible for the majority of our Owner's obligations, including:

- defining our policy and financial framework
- approving our strategy and financial objectives
- approving our Corporate Plan
- reviewing our performance and intervening to address under-performance
- being satisfied that the Dstl Board is working effectively
- approving plans, programmes and projects that exceed delegated powers.

To assist with these duties, Min(DP) receives advice from the Dstl Owner's Council, which comprises senior stakeholders from across MOD under his chairmanship, and from MOD's Business Strategy and Governance Team.

As Chief Executive, I am accountable to Min(DP), and ultimately to Parliament and the Public Accounts Committee, for Dstl's performance. To discharge these duties, I receive delegated authority from MOD's Permanent Under Secretary to manage the financial, audit, fraud, commercial, pay and personnel matters of the Trading Fund. I must also ensure that we adhere to MOD's policies on safety, health and environment protection, sustainable development and security. I am supported by a team of Executive Directors (my Executive Team).

The Dstl Board provides a forum for independent, non-executive, support and constructive challenge for me and members of my Executive Team, and has defined decision-making and advisory powers under the Dstl Framework Document. The Board's responsibilities include:

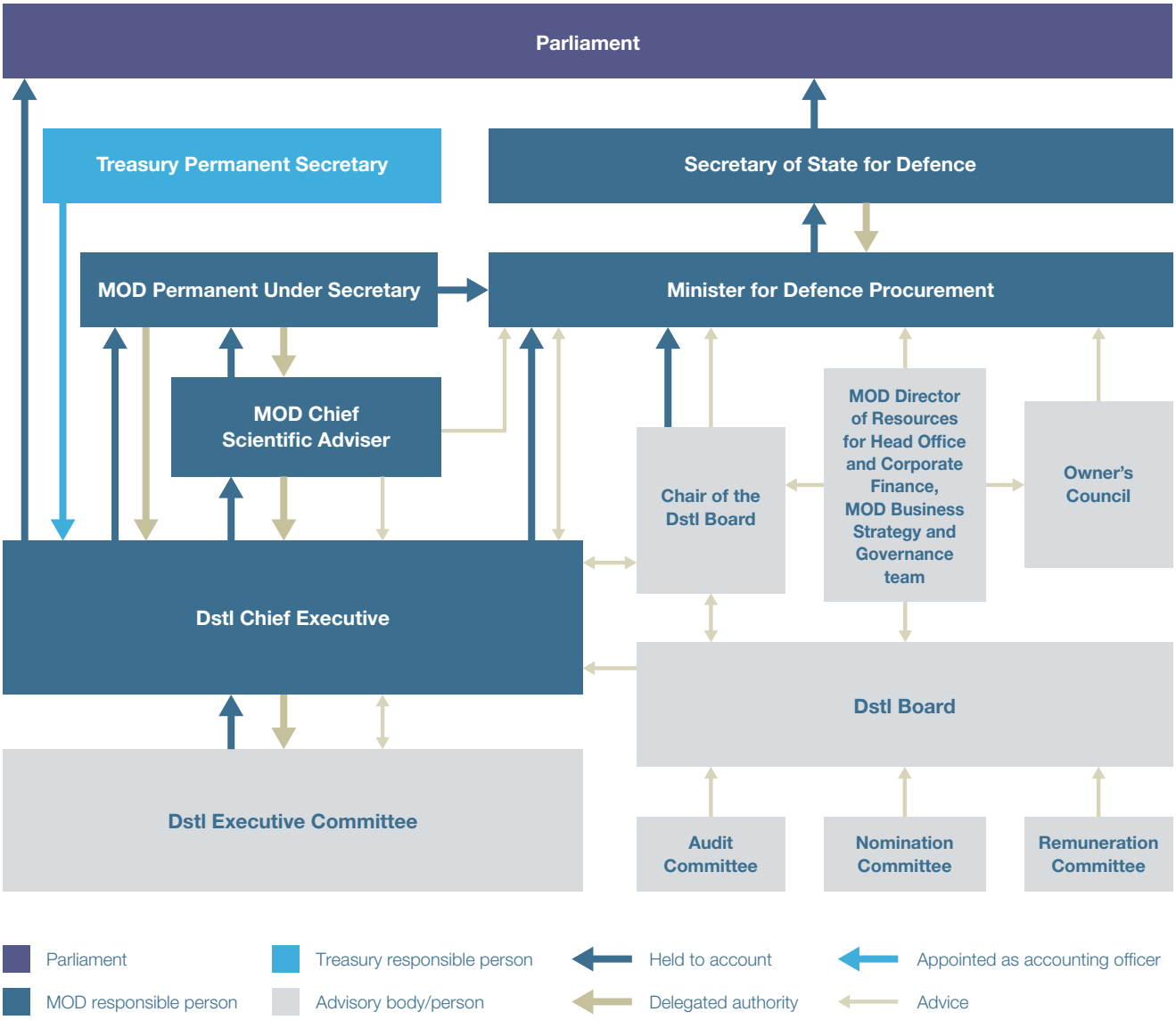
- ensuring our strategy and plans reflect our agreed purpose and the policy and commercial constraints set by MOD and HM Treasury, and that within this framework we adopt relevant best practice from across the Government and private sectors
- supporting the development of our Corporate Plan and endorsing the Plan for approval by our Owner
- approving our Business Plan and budget
- reviewing our risk appetite and the controls that are in place to manage risks and threats and to address opportunities
- reviewing our performance against our Corporate and Business Plans
- approving our Annual Reports and Accounts
- approving expenditure proposals within its delegated powers or making recommendations to our Owner where appropriate
- approving the governance arrangements for our wholly owned subsidiary, Ploughshare Innovations Ltd, as well as approving its role, strategic direction, business plan and budget.

The Board is supported by Audit, Nomination and Remuneration committees. More information on these follows later in this section.

The governance arrangements described above are documented in our Framework Document (updated and published at www.gov.uk/government/publications in July 2014) and is depicted on page 45. Overall, I am confident that we have an extremely robust corporate governance framework in place to ensure that we continue to deliver against our Purpose and Strategic Objectives. Of course, this framework may change or require modification after our 2015 Trading Fund Review. We will reflect any changes in our 2015/16 Governance Statement.

Our governance arrangements comply with HM Treasury's Code of Good Practice on Corporate Governance in Central Government Departments (2011) and, where appropriate, the Financial Reporting Council's UK Corporate Governance Code (2014).

Dstl's governance framework (as at 31 March 2015)



Dstl Board members

During the financial year, the Dstl Board comprised a Chair, four other Non-Executive Directors (NEDs) with external experience relevant to the work of Dstl, a NED from MOD, me as Chief Executive and up to four senior Executive Directors (our People and Business Services Director joined the Board in November 2014).

Sir Richard Mottram's tenure as Chairman came to an end in July 2014 and we welcomed Sir David Pepper as Chair in August 2014.

Sir David is of the view that, collectively, members have the appropriate balance of skills, experience and qualities to discharge the Board's role and responsibilities, and that as currently constituted the Board has strong independent and diverse characteristics. He is satisfied that no individual, or group of individuals, is or has been in a position to dominate the Board's decision-making. A summary of members' key strengths and experiences is provided on the following pages.

Non-Executive Directors on the Dstl Board (as at 31 March 2015)

Sir David Pepper KCMG
Chairman

Sir David took up the post of Chairman on 01 August 2014

Key strengths
Strategic leadership and delivery management at Board level; stakeholder management; change management; science and technology; corporate governance.

Experience
Sir David worked for the Government Communications Headquarters (GCHQ) for 36 years; his final appointment was as Director GCHQ between 2003 and 2008, when he led the organisation through a period of exceptional change. Other roles within GCHQ included: Director of Policy and Resources, and Director of Administration. He was also Director of Corporate Development at the Home Office. Sir David was educated at St John's College, Oxford, where he obtained a doctorate in Theoretical Physics.

Elisabeth Astall
Non-Executive Director

Appointed to the Board 01 September 2009

Key strengths
Defining strategy and vision; leading and managing consulting businesses/ projects; technology innovation and systems implementation; programme and commercial management; working with Governments and private sectors.

Experience
Elisabeth (Lis) worked for Accenture for 27 years with a series of roles – most recently from 2006 to 2009 as the Managing Director for Public Service in Europe, Middle East, Africa and Latin America. Prior to this, Lis was UK Managing Director across all the private and public sector work in Accenture. She has also been Global Managing Director of Accenture's Strategic Services business in Government. Lis has worked in consulting and outsourcing businesses, in manufacturing, financial services and Government.

External appointments
Lis is a Non-Executive Director for UK Sport, Hyder plc, and is on the Board of Digital Jersey. She is a trustee of the Social Mobility Foundation and Chair of a Brain Tumour Trust – the PPR Foundation.

Gerard Connell
Non-Executive Director

Appointed to the Board 01 October 2011

Key strengths
Strategic advisory; organisational efficiency; risk assessment and audit; stakeholder communications.

Experience
Gerard trained as a Chartered Accountant with Price Waterhouse. He spent the first half of his executive career in strategic advisory work in the City, including roles as a Managing Director of Bankers Trust Company and as a Regional Director of Hill Samuel Bank Limited. He subsequently moved into strategic, financial and operational roles in industry, latterly as Group Finance Director and Managing Director Western Europe of a FTSE-250 business services group.

External appointments
Gerard is the Senior Independent Director and previously also Chair of Audit at Pennon Group Plc. He is an Independent Director of the Nuclear Decommissioning Fund Company Limited, a Non-Executive Director at the Land Registry, a Non-Executive Director and Chair of Audit at the Financial Ombudsman Service, and a Council Member of the Science & Technology Facilities Council.

Professor Dame Wendy Hall

Non-Executive Director

Appointed to the Board
01 June 2012

Key strengths
Scientist; leadership; strategic overview; Government relations; innovation; start-up companies experience.

Experience
Dame Wendy is Professor of Computer Science at Southampton University, where she started her career as a lecturer in 1984. She was Head of the School of Electronics and Computer Science from 2002 to 2007 and Dean of the Faculty of Physical Science and Engineering from 2010 to 2014. During her career, Dame Wendy has been involved in several start-up and spin-out companies.

External appointments
Dame Wendy has served on several committees related to Government policy in science in education, particularly the Prime Minister's Committee for Science and Technology. She was Senior Vice President of the Royal Academy of Engineering from 2005 to 2008 and President of the Association of Computing Machinery from 2010 to 2012. Dame Wendy is currently a Director of the Web Science Institute. She is a Fellow of the Royal Society and a Fellow of the Royal Academy of Engineering.

Dr David Grant CBE

Non-Executive Director

Appointed to the Board
01 June 2012

Key strengths
Leadership in public and private sector organisations; research and innovation management; education and skills development.

Experience
David has held technical and general management roles in international technology businesses in electronics, telecommunications, aerospace and defence sectors. He was Technical Director of GEC plc from 1991 to 2001, and was appointed Vice Chancellor of Cardiff University from 2001 to 2012. David has been Vice-President of the Institution of Engineering and Technology, and of the Royal Academy of Engineering. David was made a CBE in 1997 for his leadership and contribution to the UK Foresight Programme.

External appointments
David is Chair of the National Physical Laboratory, Chair of STEMNET, the charity that works with schools to encourage STEM (Science, Technology, Engineering and Mathematics) pathways, and interim Chief Executive Officer of Innovate UK. He is also the Senior Independent Director of Renishaw plc and IQE plc. He is a Fellow of the Royal Academy of Engineering.

Carole Tolley

MOD's Director Resources for Head Office and Corporate Finance

Appointed to the Board 01 May 2012

Key strengths
Defence experience; finance; investment decision-making.

Experience
Carole joined MOD as an administrative fast-streamer in 1978. During this financial year, she was MOD's Director of Resources for Head Office and Corporate Finance, with responsibility for MOD's Financial Management Policy and Accounting Team, Business Strategy and Governance Team, and the finance and other resources of MOD's Head Office and Corporate Services organisations. She was previously Director of Scrutiny, with responsibility for MOD's internal approvals and scrutiny process for investment decision-making, and MOD's Director of Financial Management.

Executive Directors on the Dstl Board (as at 31 March 2015)

Jonathan Lyle
Chief Executive

Appointed to the Board on 01 March 2010 as Director Programme Office. Appointed Chief Executive on 05 March 2012

Key strengths
Leadership; engineering; strategic overview; Government relations.

Experience
Prior to his appointment as Chief Executive, Jonathan was Dstl's Director Programme Office. Previous roles in MOD have included Director Helicopters at DE&S, Director of the College of Management and Technology at the Defence Academy, and Operations Director at the Defence Procurement Agency. Earlier in his career, he worked in the Cabinet Office and the Department of Trade and Industry on cross-Government S&T policy and its implementation. He is a chartered engineer and a Fellow of the Institution of Engineering and Technology.

Dr Peter Thompson
Technical and Strategy Director (also Deputy Chief Executive)

Appointed to the Board 04 January 2012

Key strengths
Leadership; strategic planning; science and technology; defence and security.

Experience
Peter has worked in the defence and security sector for more than 20 years, since leaving university with a doctorate in Molecular Electronics. He was strategic adviser to MOD's Chief Scientific Adviser, leading the scientific contribution to Defence Reform, MOD's S&T Strategy for Defence and the 2012 Government White Paper *National Security Through Technology*. His previous roles include Dstl Programme Director (Security Science and Technology), helping to set up the Dstl Programme Office in 2010, and as Head of MOD's Counter Terrorism S&T Centre.

External appointments
Peter is Chair of the Board of Governors of the South Wiltshire University Technical College.

Mark Alexander
Finance Director

Appointed to the Board 07 December 2009

Key strengths
Financial management; change management.

Experience
Mark trained as a chartered accountant with Binder Hamlyn (now part of Deloitte), qualifying in 1988. He spent three years in corporate finance in the City, working on the electricity privatisation in 1990. He moved into industry in 1991 joining AEA Technology, which he helped to float on the London Stock Exchange in 1996. Mark has spent 18 years working in technology-based organisations, as well as working in senior financial positions at construction group Bovis Lend Lease and train operator Laing Rail. Prior to joining Dstl, he was Finance Director at Ordnance Survey, Britain's national mapping agency.

External appointments
Non-Executive Director of Ploughshare Innovations Ltd and Dstl Representative on the Board of Tetricus Ltd, a business incubator and associate company of Dstl.

[ ] The Board operates effectively as a forum in which constructive challenges can be made and discussed, and in which the executive and non-executive components interact positively.

Richard Brooks
Delivery Director

Appointed to the Board
03 April 2012

Key strengths
Change leadership; programme management.

Experience
Richard is a chartered mechanical engineer, a chartered member of the Chartered Institute of Personnel and Development, and member of the Royal Corps of Naval Constructors. He has spent his career in MOD and its agencies in a variety of technical, project management, change leadership and HR roles. In his previous role, he was Chief Operating Officer at the UK Hydrographic Office.

Christine Hewitt
People and Business Services Director

Appointed to the Board
26 November 2014

Key strengths
Human Resources (HR); people strategy and change management; leadership, learning and talent development; employee and Trade Union engagement.

Experience
Christine joined Dstl in November 2013 from the Department for Business Innovation and Skills (BIS), where she was interim HR Director. She was previously Deputy Director HR Strategy and Capability, accountable for developing BIS's People Strategy. Chris has a scientific and policy background. Other roles include BIS Deputy Director Innovation Infrastructure and Acas Strategy and Knowledge Director. In her early career, Chris worked in the Office of Science and Technology. She is a Fellow of the Chartered Institute of Personnel and Development.

External appointments
Non-Executive Trustee of the HCT Group – a social enterprise operating in the UK and Channel Islands transport sector.

Time served by the Board's Non-Executive Directors as at 31 March 2015

Total length of service by the Board's Non-Executive Directors at 31 March 2014								
	1 year	2 years	3 years	4 years	5 years	6 years	Date of most recent appointment	Date of expiry
Sir Richard Mottram*							n/a	31 July 2014
Sir David Pepper							1 August 2014	31 July 2016
Elisabeth Astall**							1 September 2012	31 March 2016
Gerard Connell							1 October 2014	30 September 2016
David Grant**							1 June 2012	31 May 2016
Dame Wendy Hall**							1 June 2012	31 May 2016
Carole Tolley							1 May 2012	N/A

*Sir Richard Mottram's tenure as Dstl Chairman concluded on 31 July 2014, after serving the maximum term of six years.
** Elisabeth Astall, David Grant and Dame Wendy Hall's appointments have all been approved for short-term extension by the then Minister for Defence Equipment, Support and Technology (now Min(DP)), in order to see Dstl through its Trading Fund Review and the implementation of any recommendations to its status.

Dstl Board activity

The Board held five scheduled meetings during the year ending 31 March 2015. In addition, the Board convened for a special strategy-setting session in September, at which strategy, external factors and the broad direction of business was discussed in depth. This was also attended by my Executive Team.

The majority of Board meetings were held at our headquarters at Porton Down, Wiltshire, but we also met at our site at Portsdown West, Hampshire. The Chair (be that Sir Richard Mottram or Sir David Pepper) and I were present at all meetings and there were high levels of attendance by other Non-Executive and Executive members. In addition, my Infrastructure Director, Graham Balmer, attended all meetings to discuss progress on our Helios Project.

Attendance at Board meetings	
Sir Richard Mottram	2 (2)
Sir David Pepper	4 (4)
Elisabeth Astall	6 (6)
Gerard Connell	6 (6)
David Grant	5 (6)
Dame Wendy Hall	5 (6)
Carole Tolley	4 (6)
Jonathan Lyle	6 (6)
Peter Thompson	5 (6)
Richard Brooks	5 (6)
Mark Alexander	6 (6)
Christine Hewitt	2 (2)

Key business at Dstl Board meetings throughout the year

The business taken at our Board meetings reflects the responsibilities of the Dstl Board, as set out in our Framework Document. It also reflects the implementation of our Strategic Objectives. Recognising that our Helios Project is not only a critical component of our Corporate Plan but also one of our key corporate risks, we tabled a standing item on the project for every meeting.

May 2014 (Porton Down)	July 2014 (Porton Down)	November 2014 (Porton Down)	February 2015 (Porton Down)	March 2015 (Portsdown West)
▶ End-of-year finance report ▶ Approve Dstl Annual Report and Accounts 2013/14 ▶ Update on the Helios Project ▶ Approve Dstl Business Plan 2014/15 ▶ Review of Dstl Charging Mechanisms ▶ Update on the Helios Project ▶ IT Investment update ▶ Update from Dstl's Chief Information Office/Senior Information Risk Owner (out of Committee) ▶ *No afternoon programme due to the size of the agenda*	▶ Progress on Dstl cost reduction programme ▶ Update on the Helios Project ▶ Review of the Corporate Risk Register ▶ Re-financing of Ploughshare Innovations Ltd ▶ Update on the work of Dstl's Senior Women's Action Group and Gender Diversity work	▶ Review of the Dstl Financial Plan 2015 – 2020 ▶ Review of the Dstl Five-Year Capital Plan ▶ Reshaping and Resizing Dstl ▶ PIL Business Plan – six-monthly update ▶ Q2 Business Performance Report ▶ Review an early draft of the Dstl Blueprint 2020 ▶ Update on the Helios Project ▶ IT Investment update ▶ Review of Dstl Board Terms of Reference ▶ Update from Dstl's Chief Information Office/Senior Information Risk Owner (out of Committee) ▶ *No afternoon programme due to the size of the agenda*	▶ Approve Workforce Planning project ▶ Civil Service People Survey 2014 – key findings and next steps ▶ Review Dstl Blueprint 2020 ▶ Budget 2015/16 – verbal update ▶ Review draft *Dstl Corporate Plan 2015 – 2020* ▶ Q3 Business Performance Report ▶ Establishment of the Divisions – presentation ▶ Update on the Helios Project ▶ Update from Dstl's Chief Information Office/Senior Information Risk Owner ▶ *Presentation and discussions with Dstl staff who had been involved in mitigating the Ebola crisis*	▶ Endorse Ploughshare Innovations Ltd Business Plan 2015/16 ▶ Helios Project ▶ Approve Dstl Blueprint 2020 ▶ Update on Dstl's Trading Fund Review ▶ Approve revised Dstl prioritisation guidance ▶ Declare Dstl Dividend for 2014/15 ▶ Approve Dstl Budget 2015/16 ▶ *Visit to the Change Exchange*

Board processes

All processes and procedures affecting the Board are maintained and operated by the Dstl Corporate Secretary. A key process is around information flow; Board members receive a regular and controlled flow of information relevant to the fulfilment of their duties. A number of the NEDs sit on in-house project boards with my Executive Team on specific issues, such as our Helios Project and the annual review and appointment of our Fellows and Senior Principals.

Board meetings encompass regular written reports from me, the Audit Committee Chair and a forward-look of the business that is expected to be taken throughout the year. We adopt the principles of Evidence-Based Decision Making when preparing all our papers, particularly when presenting options to the Board for approval.

Formal minutes of all meetings are circulated to Board members promptly. Between Board meetings, other information is circulated as necessary to keep Board members informed on relevant issues, such as policy changes within MOD. Board members have access to up-to-date corporate information.

An afternoon programme is typically scheduled to follow every meeting of the Board to help familiarise our NEDs with different aspects of our work. As last year, pressure of business has prevented us from scheduling a programme after every meeting.

Liability

Board members are indemnified against any personal civil liability that is incurred in proper execution of the Board functions provided that Board members have acted honestly, reasonably, in good faith and without negligence. The Dstl Corporate Secretary holds a central database of Non-Executive Directors' Declarations of Interest, of which responsibility for updating these rests with the Non-Executive Directors.

Review of effectiveness

This year, the Chair, with the approval of the Board, decided to defer the annual Review of Effectiveness of the Board, which is typically undertaken in February. This is because of our Trading Fund Review, which commenced in May 2015 and is due to finish in the autumn. Depending on the outcome of the Trading Fund Review, we plan to undertake the exercise before the end of 2015/16, using it to help shape the Board for Dstl's future governance structure.

In the meantime, I have provided an update of action taken against the main findings of our last exercise, undertaken in February 2014.

Area	Action	Progress against action
Strategy and plan formulation	▶ Board to increase its focus on forward-looking activities and to schedule more time to review and discuss the capital investment aspects of its forward-planning	▶ Forward-looking items included where appropriate to the role and responsibilities of the Board ▶ Capital Investment Plan now an annual item on Board agendas; the process was also reviewed in-year
Performance	▶ Improved time-management of agenda items	▶ Greater liaison between the Chair and the Corporate Secretary when planning Board agendas ▶ Items time-bound but with flexibility to adjust timings where the discussion takes longer than anticipated ▶ Extra meeting scheduled for 2015/16 and 2016/17 and the entire day is blocked out for the meeting
Decision-making	▶ Continue to ensure that business coming to the Board is to 'approve', and that genuine choices are offered when presenting the Board with options for approval	▶ Paper templates revised to make clear the recommendations being presented to the Board ▶ Guidance on evidence-based decision-making and the formulation of options provided to paper authors
Utilising Board expertise	▶ Executive Directors to continue to ensure that the NEDs are involved in the discussion of key issues between Board meetings, where appropriate, and to sit on key project boards, again where appropriate ▶ Include a presentation from the business as a standing item (in addition to the afternoon programmes)	▶ Greater level of NED involvement between Board meetings ▶ Presentation from the business has not been included as a standing item but 2015/16 will see the inclusion of a presentation from each of the new Division Heads as a standing item
Agenda and papers	▶ Continual review of the nature, content and length of papers brought to the Board	▶ Corporate Secretary reviews all papers going to the Board to ensure adherence to the template and guidance provided, working closely with Board authors as appropriate

Chair of the Dstl Board Sir David Pepper commented:

"The Board operates effectively as a forum in which constructive challenges can be made and discussed, and in which the Executive and Non-Executive components interact positively. During the year, we have focussed on several key risks and issues facing Dstl, including, in particular, control of the Helios project, Dstl's wider change programmes, and preparation for the Trading Fund Review. As the new Chair, I am satisfied that the Board properly discharges its responsibilities, and that its members have a shared sense of purpose in supporting Dstl's development."

Board committees

In discharging its role and responsibilities, the Dstl Board delegates some activities to Audit, Nomination and Remuneration committees.

Audit Committee

The role of the Audit Committee is to support the Dstl Board and me, as Accounting Officer, in monitoring the organisation's corporate governance and control systems, and reviewing the financial statements. It primarily advises us on:

- the strategic processes for risk, control and governance, and the Governance Statement
- the accounting policies, the accounts, and the Annual Report and Accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors
- the planned activity and results of both internal and external audit
- adequacy of management response to issues identified by audit activity
- assurances relating to our corporate governance requirements
- proposals for tendering for external audit services or for purchase of non-audit services from contractors who provide audit services
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit Committee is chaired by Gerard Connell and also comprises Elisabeth Astall, David Grant and Carole Tolley. I attend by invitation, as do my Finance Director, my Head of Internal Audit and representatives from the National Audit Office or its subcontracted partner. This year, my deputy Chief Executive, Head of Finance and Head of Strategy and Governance also attended meetings, as did representatives from Defence Internal Audit, who attended as observers.

We have met four times this financial year.

Members' attendance at Audit Committee meetings	Number
Gerard Connell (Chair)	3 (4)
Elisabeth Astall	2 (4)
David Grant	4 (4)
Carole Tolley	3 (4)

This year, under Gerard Connell's chairmanship, the Audit Committee has continued to oversee the improvement of our audit activities. We use our Corporate Risk Register to build a comprehensive audit plan.

Internal Audit Programme undertaken throughout the year
Since 1 April 2014, as well as our regulatory Security and Safety, Health, Environment and Fire (SHEF) audit programmes, Dstl carried out 22 internal audits, which were completed by our contracted internal audit provider and by our in-house assurance team.

Subjects of focus this year have included how we manage our body of knowledge and protect how we share the information within it, and continuing to look at value for money, particularly in terms of Dstl's strategic partner relationships and how they remain fit for a reshaped Dstl business. Other areas we looked at include how we prioritise demands for our services; our counter-fraud and resilience planning; Safety, Health, Environment and Fire (SHEF); Security; communications; and, workforce capability planning.

May 2014 (Porton Down)	September 2014 (Porton Down)	November 2014 (Porton Down)	February 2015 (Porton Down)
▶ NAO Audit Completion Report ▶ Dstl Annual Report and Accounts 2013/14 ▶ Quarterly Assurance Report ▶ Corporate Risk Register ▶ Risk Management Strategy and Plan ▶ Dstl Audit Plan	▶ Quarterly Assurance Report ▶ Strategic Partner update ▶ Data resilience	▶ Quarterly Assurance Report ▶ Audit Plan update ▶ Triage process ▶ Dstl Audit Plan update ▶ NAO Audit Plan	▶ Quarterly Assurance Report ▶ Draft Annual Audit Plan ▶ Review of Audit Charter ▶ Workforce capability planning ▶ Communications

Other standing items: Finance Director's report; NAO briefing update on cross-Government NAO work; MOD briefing update on Head Office and Ministerial matters; fraud and corruption update; MOD SHEF and Security reports; and, information risk management update.

Review of Effectiveness
In line with the postponed annual Review of Effectiveness of the Dstl Board (see page 52), the Chair of the Audit Committee also agreed to postpone this year's review of the Audit Committee until 2015/16, when it will be in the form of independent audit as opposed to self-assessment.

Chair of the Audit Committee Gerard Connell commented:

[ ] This year, the Audit Committee has continued to review systems and controls to ensure that Dstl manages its business robustly and effectively in a time of significant transformation. We have also remained focussed on high-risk areas of the business, driven by regular review of the Corporate Risk Register. The Dstl Audit Plan was reviewed twice in-year to ensure that the entire assurance programme remains on track to deliver improvements to help Dstl achieve its Strategic Objectives. Looking to next year, we will remain focused on value for money, particularly in respect of making our strategic partnerships fit for purpose, and on reviewing treatments specific to high-risk areas as well as ensuring that audit and assurance activities are one of the key drivers for Dstl's organisational improvement."

Remuneration and Nomination committees
This year, there has been one meeting of Dstl Remuneration Committee and one meeting of our Nomination Committee.

We aim to establish an environment whereby people feel trusted and empowered to deliver their work while acting responsibly and safely at all times.

The Remuneration Committee met on 26 May 2014 to discuss the performance of my Level 9 Executive Directors, the decisions being reflected in pay outcomes. Members also noted the recommendations made for my Senior Civil Service Executive Directors, for subsequent decision within MOD. Members present were the Chair (Sir Richard Mottram), Elisabeth Astall, Gerard Connell, David Grant and me.

The Nomination Committee met on 21 October 2014 to discuss the future structure of my Executive Team, before finalising with the Chair out of committee and announcing to affected individuals and wider staff. Members present were the Chair (Sir David Pepper), Carole Tolley, Gerard Connell and me. More information on my reshaped Executive Team is given later in this statement.

Control environment

We aim to establish an environment whereby people feel trusted and empowered to deliver their work while acting responsibly and safely at all times. This environment is built up from a combination of the policies, processes and guidance set out within our Management System (MS), the responsibilities set out in standard role profiles and letters of delegation, and the central role of review in our programme and project governance. All this is underpinned by the provision of sound ethical advice.

Dstl policies

We have a suite of overarching policies published on the MS, comprising seven Corporate Policies each sponsored by one of the Executive Directors, and a number of supporting Operational Policies owned by a Head of Function or other senior manager.

In preparation for our reorganisation of our delivery Departments into five Divisions on 1 April 2015, our policies have been reviewed and updated to identify where the responsibility for discharging the policies lies with my Executive Team and the Corporate Functions, and where the responsibility can be delegated to the Divisions. This clarification of responsibility has been written into new Division Agreements, thereby providing a clearer framework for governance, delegation and control.

Key processes

While we have continued to update the MS to reflect legislative and external policy requirements, during 2014/15 we have halted other routine development work to focus on preparing for the new approaches that are underpinning the formation of our Divisions: for example, streamlining and integrating our customer work in an efficient end-to-end delivery process.

In parallel, our professional Function Policy Leads have been reviewing our enabling activities to identify those that are core to our business, and those that can be relinquished with minimal impact. This work was scheduled to move to an implementation phase once the Divisions were in place.

Key accountabilities and delegations

In year, key accountabilities continued to be set through role and responsibility definitions provided through 25 corporate role profiles (Department Manager, Chief Scientist/Technologist, Project Manager, Process Owner, Lead Technical Reviewer, etc). These are supplemented through letters of delegation and performance management objectives to reflect the specifics of the business, capability or delivery area. Each individual is held to account by their Line Manager, or through other, Functional, chains of command. Key role profiles and responsibilities are currently under review.

External reviews

Independent external review by Lloyds Registered Quality Assurance (LRQA) has confirmed the effectiveness of our MS controls through our ISO9001, TickIT and ISO14001 accreditations:

- **LRQA – ISO9001:2008** During the past year, we were recertified to ISO9001 Quality Management System, extending our certification to December 2017.

- **LRQA – TickIT*plus*** In parallel, we have had our software to support analytical, research, technical assurance and consulting activities accredited to the Foundation Level of the new TickITplus standard – again to December 2017.
- **LRQA – ISO14001:2004** We have continued to maintain an ISO14001:2004-certified environmental management system at Porton Down, Portsdown West and Fort Halstead. Overall, the audits reported a high level of compliance, with no new non-compliances in the June 2014 visit. The certification extends to October 2017.

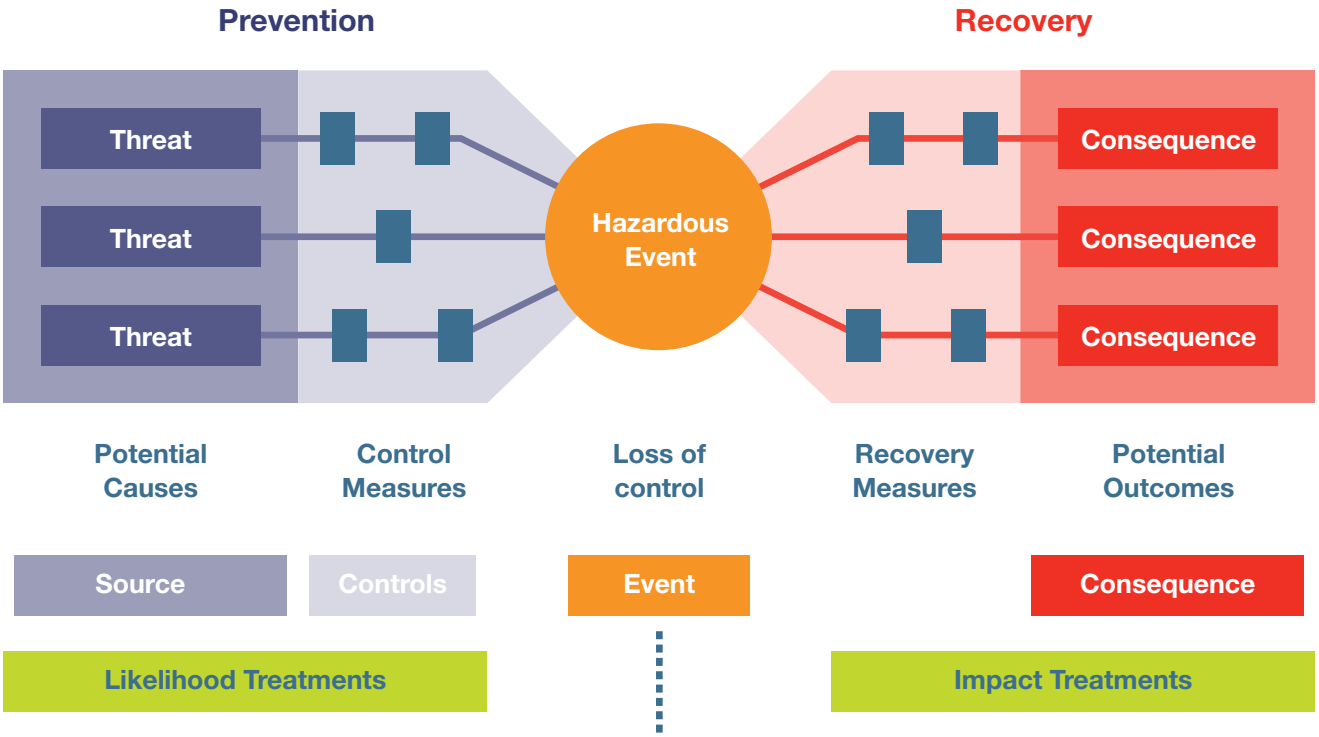
Other key external audits and inspections were:

Review	Auditor / Regulator	Date	Outcome
Financial Review	National Audit Office	May 2014	Review of year-end financial statements and accounts. No issues to report
ISO:17025 Competence of testing and calibration laboratories (Alverstoke)	UK Accreditation Service	June 2014	Pass – minor findings
Incinerator	Environment Agency (EA)	June 2014	Pass – no significant issues identified
Health, safety and environmental protection	MOD Defence Safety and Environment Authority – Corporate Policy and Assurance	June 2014	Pass – minor findings
Civil Service Commission Recruitment Principles	KPMG (on behalf of Civil Service Commissioners)	July 2014	Pass – no issues to report
High-classification assets (Portsdown West and Porton Down)	Defence Security Assurance Service	September 2014	Pass – significant improvement noted on this repeat audit for both sites
Review of Dstl's Force Structure operational analysis tools	Defence Internal Audit (DIA)	October 2014	No significant issues reported. Review part of the wider review of MOD's Munitions Stockpile Planning, Procurement and Management process
Radiation safety (Alverstoke)	EA	November 2014	Pass – no non-compliances reported
US regulations on Biological Select Agents and Toxins	US – Biomedical Advanced Research & Development Authority	December 2014	Pass – no significant issues identified
Human Tissue Act	Human Tissue Authority	December 2014	Pass – good practice observed by the inspector regarding the Dstl donor consent process. Only minor observations recorded
Radiation safety (Porton Down)	EA	December 2014	Pass – minor findings
Lightning II ITE (Independent Technical Evaluation) Competent Organisation	Lightning Project Team (SCS Limited)	January 2015	Pass – management action plan issued in response to ten recommendations and minor non-conformances

Risk management

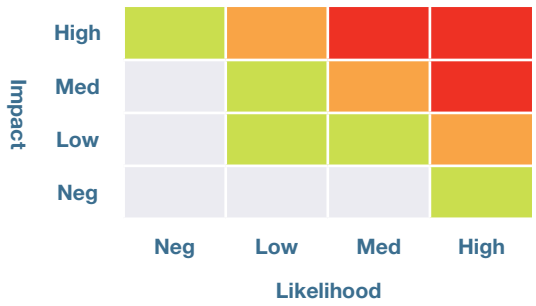
The diagram below illustrates the process used to identify risks at a corporate level. It helps to describe risks as an event, with clearly identified sources and consequences. Control and recovery measures can then be mapped against the potential causes (sources) and potential outcomes (consequences).

Risk management diagram



During the year, a new Risk Management Strategy was agreed by my Executive Team and the Audit Committee, with the aim of embedding risk management culture throughout the business over the next two years. Risk management forms a core part of the new Division Agreements.

In order to provide an assessment of the risk rating (whether the risk is a threat or an opportunity), a risk-rating criteria is assigned. At a corporate level, we use a four-by-four matrix to assess the risk rating:

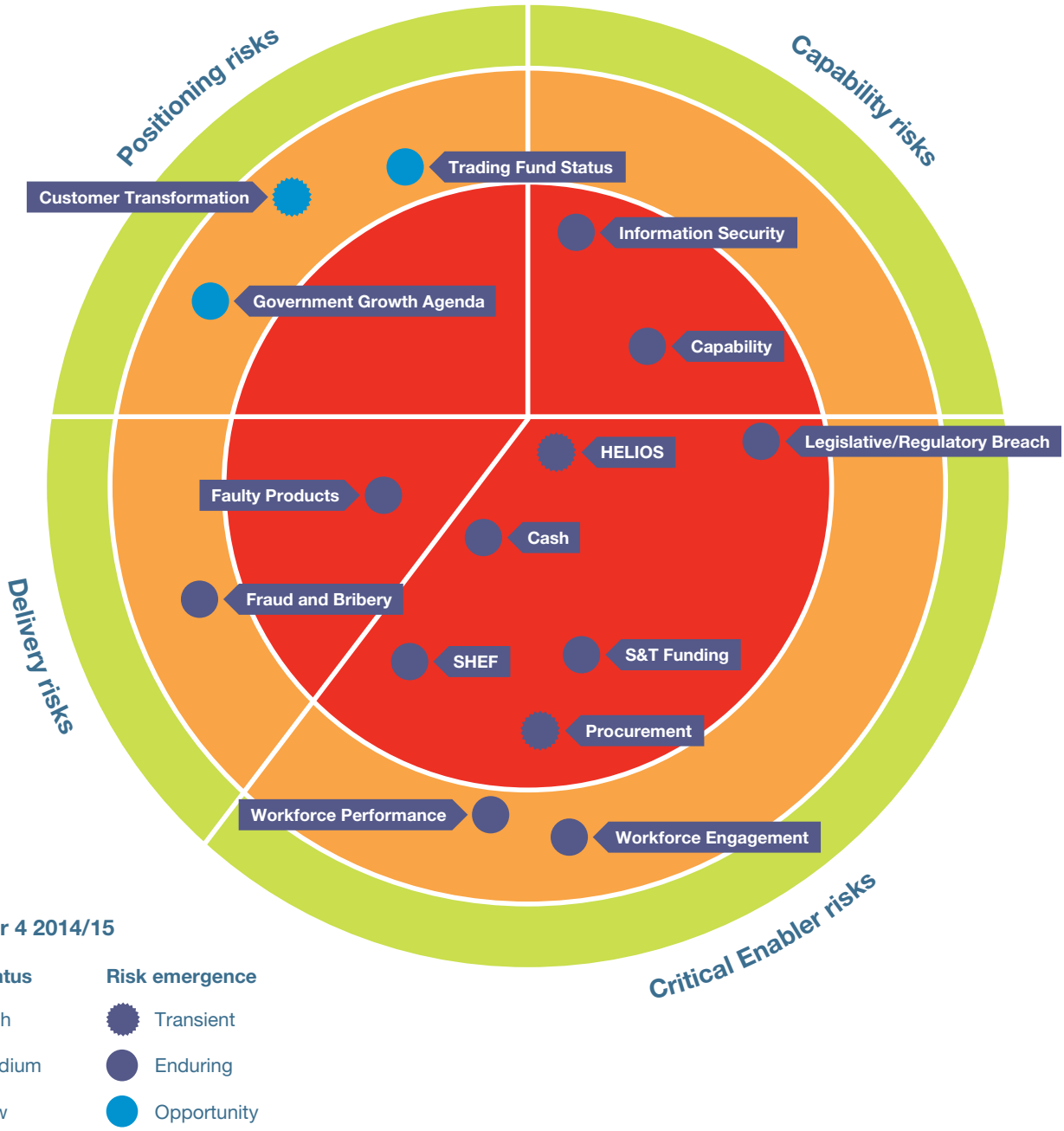


Each of the risks is documented in a working document, which allows the risk owner to provide more information against each of the treatments and progress in terms of managing the risk rating.

A summary of the corporate-level threats and opportunities (as at the end of the reporting year) is provided below in the form of a risk-radar diagram and in the table. (The likelihood ratings relate to the five-year timescale of our Corporate Plan.)

During the year, two threats were retired, two delegated, one new threat created, and a total of nine previous risks combined together into three revised risks formulated at a more strategic level. Overall, the number of Corporate Risks has reduced from 24 to 15.

Risk-radar diagram of Dstl's corporate-level threats and opportunities



Quarter 4 2014/15

Risk status	Risk emergence
High	Transient
Medium	Enduring
Low	Opportunity

Owner	Risk	Rating (Likelihood and Impact)	
		Current	Target
ENDURING			
Technical and Strategy Director	**Capability** – Our capability does not meet future customer requirements	MH	LM
Technical and Strategy Director	**Trading Fund Status** – We maximise the opportunities around a change in our operating status	Opportunity	
Technical and Strategy Director	**S&T Funding** – S&T Programme Funding is reduced	HH	LM
Technical and Strategy Director	**Government Growth Agenda** – We contribute to the UK Government Growth Agenda	Opportunity	
Finance Director	**Insufficient Cash** – There is insufficient cash to fund our planned investment programme	HH	LH
People and Business Services Director	**Workforce Performance** – Low levels of workforce performance adversely impact sustained business delivery	MM	LL
Chief Executive	**Workforce Engagement** – Insufficient workforce engagement puts delivering our vision at risk	MM	LL
Delivery Director	**Faulty Products** – Faulty products and/or advice causes us loss or damage	MH	LH
Delivery Director	**SHEF Incident** – A significant, avoidable SHEF incident occurs	MH	LH
Infrastructure Director	**Information Security** – A significant, avoidable security/information assurance incident occurs	MH	LM
Chief Executive	**Legislative/Regulatory Breach** – We suffer a significant breach in legislative or policy compliance, or a prohibition/improvement notice is imposed	MH	LH
Finance Director	**Fraud and Bribery** – Financial loss and reputational damage due to fraud or bribery	MM	LM
TRANSIENT			
Technical and Strategy Director	**Customer Transformation** – We become an integral part of an evolving MOD	Opportunity	
Infrastructure Director	**HELIOS Delivery** – We fail to deliver the Helios Project to time, cost and quality	HH	MM
Finance Director	**Procurement Capability** – Our procurement capability, capacity and awareness is unable to meet demand	MH	LM

Fraud management

During 2014/15, we have undertaken a detailed self-assessment against financial and commercial fraud, facilitated by Fraud Defence, against the Cabinet Office's Fighting Fraud Together framework. The output from the exercise was an action plan that was reviewed with Defence Fraud during the latter part of March 2015.

Control activities

Our control activities aim to ensure that the policies and procedures governing the organisation and our governance arrangements are efficient and effective.

Our overall assurance in the effectiveness of our controls is built up from a combination of: design and built-in process control; roles and responsibilities; management supervision; risk management; management information; and accountability for decision-making.

We continue to maintain effective risk management across the physical security, defensive cyber and information assurance domains. This is achieved using a range of capabilities, both internal and external to Dstl.

Control and supervision of day-to-day activities lies with the Departments (from 1 April 2015, with our Divisions – first line of control). Department and Functional specialists provide oversight, and employ management information to ensure conformance and address issues of non-conformance (second line of control). Internal Audit (third line of control) provides an independent assessment of the effectiveness of the first and second lines of control.

Incident investigations

We actively encourage the reporting of near misses and incidents in order to learn lessons. Incidents are investigated proportionately, based on the potential the incident could have had and not just proportionate to the actual harm or damage caused. All incidents classified as 'medium' are investigated locally. Incidents classified as 'high' are subject to an independent, corporate investigation.

This year, 56 high-level incidents (SHEF: 44; Security: 9; Whistleblowing (Fraud): 1; Governance: 1; Commercial: 1) have resulted in 43 corporate investigations. In addition, a corporate investigation was requested for one medium incident due to the attendance on site of a civilian response team. The difference between the number of high-level incidents and corporate investigations is due to the merger of some incidents under one investigation, incidents being included in ongoing subject reviews, or responsibility lying outside Dstl.

All corporate investigations result in an agreed management action plan, which is actively managed through to completion.

Whistle-blowing

We are committed to achieving the highest possible standards of service and ethics in public life and this is demonstrated by our whistle-blowing process, which is written in line with the Public Interest Disclosure Act 1998, the Fraud Act 2006, and the Bribery Act 2010. This year, we have had two incidents raised via our whistle-blowing process. We take such incidents extremely seriously and in each instance an assessment of the issues raised was undertaken, followed by a local management investigation or an independent, corporate investigation (included in Investigations, above). The first incident was concluded to the satisfaction of our Audit Committee; the final incident investigation is ongoing.

Information Assurance (IA) incidents

We continue to maintain effective risk management across the physical security, defensive cyber and information assurance domains. This is achieved through our SIRO (Senior Information Risk Owner) using a range of capabilities, both internal and external to Dstl.

We coordinate with MOD Joint Security Coordination Centre and report and investigate all IA incidents in accordance with MOD requirements. Within this reporting period, we have managed one serious IA incident, which on investigation highlighted a weakness in administrative controls in a specific area of the organisation that we have subsequently remediated and strengthened.

Drawing on the lessons from previous IA incidents, we have applied greater focus on legacy information assets and are progressively and pragmatically addressing these in advance of our move from Fort Halstead.

We have also significantly strengthened our governance around the management of classified material by implementing a new capability under SIRO that will monitor and assure compliance.

Sanctions this reporting period include:

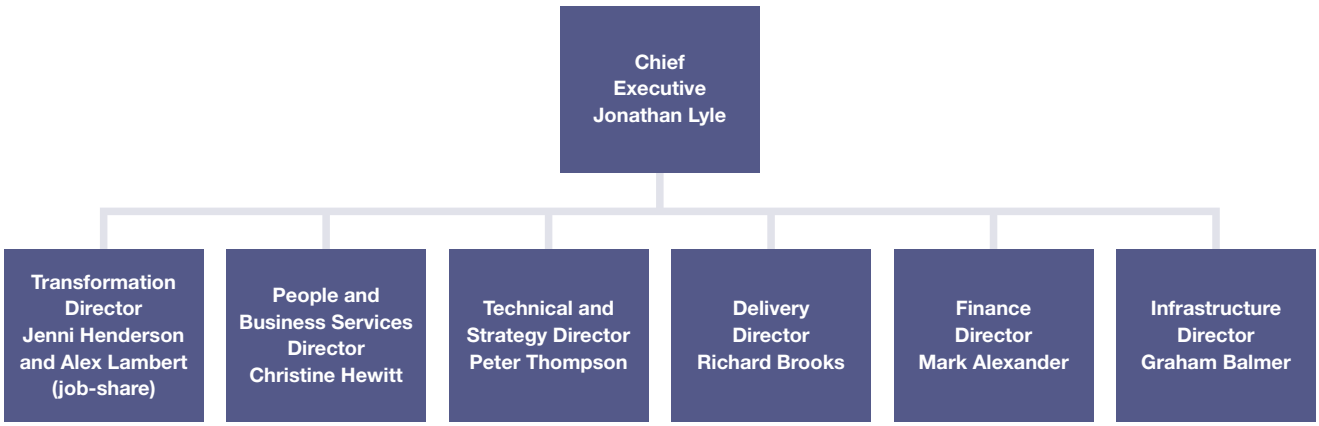
- Written Warnings issued – 1
- Final Written Warnings issued – 0
- Dismissals – 0

Protected personal data-related Incidents
There have been no incidents where personal data has been exposed to risk within the reporting period, or reports of loss or compromise of protected personal data.

Holding to account

In order to ensure the successful achievement of our corporate strategy, I have established robust holding-to-account arrangements throughout the organisation. Below, I have explained those in place for the effective discharge of authorities and responsibilities held by that of my Executive Team.

Executive Team
In order to provide the appropriate leadership to enable us to achieve our vision, and in adapting to the environment in which we work, I took the decision to resize and reshape my Executive Team. This change removed the two-tier approach that had existed since April 2013. My revised Executive Team, which came into effect on 1 January 2015, is as follows:



Role with effect from 1 April 2015

A reduced number of Executive Directors allows for better and faster collective decision-making and a stronger, more cohesive leadership team for Dstl. The newly-defined roles also provider clearer lines of accountability, with a better balance between operational and strategic focus, allowing my Executive Team to give appropriate emphasis to the management of corporate risks. Most importantly, it allows us to focus our efforts on delivering impactful S&T for our customers – keeping us strong, now and into the future.

The overriding purpose of my Executive Team is to support me in discharging my responsibilities, as outlined in Dstl's Framework Document. The business taken at Executive meetings provides a balance between operational and strategic focus and gives appropriate emphasis to managing corporate risks.

I held 12 scheduled meetings with my Executive Team during the year ending 31 March 2015. The table overleaf provides a summary of the business taken throughout the period.

April 2014	May 2014	July 2014	August 2014	October 2014	November 2014
▶ New Year Honours list ▶ Workforce sizing options and pay update ▶ Capability reshaping and headcount reduction ▶ Communications update	▶ Programme MAST update ▶ Updates from Executive Sub-Committees ▶ Annual review of the Corporate Risk Register ▶ Ploughshare Innovations Ltd – Easy IP options ▶ Charging mechanisms ▶ AP12 finance update ▶ Business Performance Report ▶ Communications update	▶ HANNIBAL Big Data Experimentation Facility – Programme update ▶ Owner's Council update ▶ Capability Balance of Investment and S&T review ▶ Organisational change briefing ▶ Trading Fund Workshop ▶ Diversity ▶ Finance update ▶ Communications update	▶ Maritime Freedom of Manoeuvre – technical highlights ▶ Business Performance Report ▶ SHEF report ▶ Updates from Executive Sub-Committees ▶ Change management ▶ Capability Balance of Investment ▶ Communications update ▶ Executive Terms of Reference	▶ Birthday 2015 Honours ▶ Programme update: C4ISR DS&E (Decision Support and Experimentation) – technical highlights ▶ Updates from Executive Sub-Committees ▶ Finance update ▶ Dstl strategy update ▶ Executive-level talent reviews ▶ Composite Support Project workshop	▶ Updates from Executive Sub-Committees ▶ Financial Plan update ▶ Reshaping and resizing Dstl ▶ Reorganising Our Approach to Delivery update ▶ Dstl strategy update ▶ Blueprint update ▶ Business Performance Report ▶ Update to Dstl key messages

December 2014	January 2015 (Meeting 1)	January 2015 (Meeting 2)	February 2015	March 2015 (Meeting 1)	March 2015 (Meeting 2)
▶ Excellence in Project Leadership Award ▶ Programme update: Zephyr – Technical highlights ▶ Updates from Executive Sub-Committees ▶ Dstl strategy update ▶ AP7 finance update ▶ Civil Service People Survey results 2014	▶ Programme update: CBR – technical highlights ▶ Updates from Executive Sub-Committees ▶ Dstl Blueprint ▶ AP8 Finance update ▶ Workforce Planning	▶ Workforce Planning ▶ Strategic guidance – Prioritisation principles ▶ Q3 Risk Register update ▶ Draft Assurance Report ▶ Dstl Governance: Division Contracts ▶ Civil Service People Survey Actions ▶ Corporate Plan 2015 – 2020 and Financial Plan ▶ Blueprint update	▶ Updates from Executive Sub-Committees ▶ ROAD update ▶ Delivery to 31 March 2015 ▶ Investment Panel approvals ▶ AP10 Finance updatet ▶ Draft budget 2016/17 ▶ Space management	▶ Trading Fund Review – Dstl submission ▶ Governance update ▶ Dstl 2020 Blueprint and Roadmap ▶ Prioritisation guidance ▶ Helios update ▶ Serco/Steria update ▶ Declaration of Dstl Dividend ▶ Budget 2015/16	▶ SHEF update ▶ Governance update ▶ S&T governance and Trading Fund Review ▶ Dstl 2020 Blueprint and Roadmap ▶ 2015 pay remit and business case ▶ Financial planning implications of different pay remit assumptions for 2015/16 ▶ Helios accommodation allowance ▶ Dstl five-year capital plans ▶ Update from Executive Sub-Committee

The Executive generally met twice a month from January 2015 because of changes to the sub-committee arrangements – see page 63.

Executive Sub-Committees

As I outlined in last year's Governance Statement, I designed the implementation of our corporate strategy around our Strategic Objectives and Critical Enablers, assigning leadership to a single Director, held to account by me. These arrangements were complemented by the establishment of three Executive Sub-Committees: the Transformation, Stewardship and Assurance Executive Sub-Committees, the purposes of which were to:

- Transformation: to ensure the achievement of required business outcomes through the portfolio of change activity.
- Stewardship: to determine how we should capitalise on our financial resources and investments in order to ensure the correct balance between meeting customers' immediate priorities and maintaining and developing our capabilities for the future.
- Assurance: to assure the Chief Executive that our framework of governance, risk management and internal control is sound and robust.

These sub-committees met in-year as follows:

- Transformation – 12 meetings
- Stewardship – six meetings
- Assurance – seven meetings.

However, with the establishment of my smaller Executive Team and the creation of the post of Transformation Director, I took the decision in January 2015 to disband the operation of the Transformation Executive Sub-Committee. At the same time, I decided that the business of the Assurance Executive Sub-Committee was of such a critical nature that it should be discussed by my full Executive Team. The Stewardship Executive Sub-Committee continues to be an effective means of balancing our investment priorities with that of maintaining and developing our capabilities. I have also decided to make the Investment Panel and SHEF Management Committee formal sub-committees of my Executive Team, given the significant nature of business discussed at these monthly meetings. The latter came into effect on 1 April 2015.

Our approach to business performance reporting continues to evolve as we work towards achieving our vision.

Division arrangements and the Division Agreement Framework

Also with effect from 1 April 2015 was the establishment of five Divisions to better manage our approach to delivery. The Divisions replaced our previous Departmental structure. While each Division now has greater autonomy over its means of delivery, each Division has documented an agreement, signed off by my Executive Team, which captures expected business performance in-year and is reviewed on a quarterly basis.

Business performance reporting

Our approach to business performance reporting continues to evolve as we work towards achieving our vision. Reporting has also adapted to reflect changes in my Executive Team, combining technical and people under capability, and elements of our end-to-end delivery into a revised single delivery section.

In the past 12 months our business performance reporting has improved the quality and focus of its content. Using feedback from my Executive Team and the Board, we have removed less-relevant content, introduced content where the coverage was weak, and placed a greater emphasis on building relevant evidence to support key messages.

Within our existing transformation programme we are introducing a stronger business performance approach by integrating performance measurements into new governance arrangements and the management information framework of our new divisional structure.

For the longer-term, we are building stronger measureable evidence that we are achieving our vision and Strategic Objectives.

In summary

Annual assessment of governance

The overall assessment of our governance arrangements is based on the scope of the audit work carried out and the detailed testing undertaken. It also takes account of assurance outcomes from external providers.

Our Head of Internal Audit has concluded that: "Based on the audit work carried out and management's response to the issues raised, 'Substantial' assurance can be provided (in overall terms) on the governance, risk and internal control processes that were reviewed. I particularly note the positive assurances that resulted from the work of a number of external regulators during the year, which provide confidence in the quality of the systems and processes that were subject to review.

Notwithstanding this, the Dstl business has continued to be the subject of appropriate and necessary transformational change that affects both what it does and how it conducts its operations. These are longer-term changes and, therefore, not surprisingly, our audits during the year around some of these areas led to a limited assurance rating. I am satisfied that management have developed appropriate action plans and agree with management's increasing focus on maintaining momentum to complete these plans effectively and on a timely basis.

The areas that require focus are around:

- increasing the effectiveness of the transformational changes introduced to restructure how the end-to-end customer delivery process is managed
- making further progress in addressing known challenges around commercial capability and processes. This is critical in enhancing organisational capacity to effectively manage its strategic partners (including from a quality, safety and cost perspective) to ensure contracts and the way they are managed are fit for the future
- more effectively dealing with known risks around prioritising projects within constrained funding and subsequent effective management of business change and transformational projects.

Dstl has continued to invest in enhancing its assurance system, particularly the focus, capability and processes of the third line of defence functions. There was clear alignment between key business and strategic risks and the shape of the internal audit plan, and continued emphasis on deeper and risk-based reviews."

Summary comment

Our system of internal control, given clear focus through the independently chaired Audit Committee, is essential to enable me to discharge my responsibilities as CE and Accounting Officer for an organisation undergoing significant change in a challenging defence and economic context. Over the past three years, we have created a more integrated and responsive system, informed and driven by our key corporate risks. Our audit partner is providing us with insightful audit findings and, coupled with the challenge and support of our Non-Executive members, is enabling us to tackle those aspects of the business that need to improve as we seek to deliver impact and value to our customers.

Jonathan Lyle
Chief Executive
4 June 2015

Our Financial Performance

The Certificate of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory (Dstl) for the year ended 31 March 2015 under the Government Trading Funds Act 1973. The financial statements comprise: Statement of Comprehensive Income; Statement of Financial Position; Statement of Cash Flows; Statement of Changes in Taxpayers Equity; 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 been audited.

Respective responsibilities of Dstl and the Chief Executive and auditor

As explained more fully in the Statement of Dstl's and Chief Executive's Responsibilities, the Chief Executive as Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Trading Funds Act 1973. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 Dstl's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Dstl; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Finance Director's Report, Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

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

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of Dstl's affairs as at 31 March 2015 and of its profit for the year then ended; and
- the financial statements have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions issued thereunder.

Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Trading Funds Act 1973; and
- the information given in the Finance Director's Report, Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Governance Statement does not reflect compliance with HM Treasury's guidance.

Report

I have no observations to make on these financial statements.

Amyas C E Morse
Comptroller and Auditor General
National Audit Office
157-197 Buckingham Palace Road
Victoria
London SW1W 9SP

11 June 2015

Accounting information

Statement of Comprehensive Income for the year ended 31 March 2015

	Note	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Turnover	**2**	**652.9**	**660.9**	**652.3**	**660.4**
Cost of sales		(307.9)	(318.7)	(307.8)	(318.6)
Net income		**345.0**	**342.2**	**344.5**	**341.8**
Operating expenses		(314.7)	(315.9)	(312.0)	(321.8)
Operating profit	**3**	**30.3**	**26.3**	**32.5**	**20.0**
Share of associate's income		0.0	0.0	0.0	0.0
Finance income	8	0.5	0.4	0.4	0.4
Finance expense	9	(0.7)	(0.8)	(0.7)	(0.8)
Profit before taxation		**30.1**	**25.9**	**32.2**	**19.6**
Taxation expense	10	0.0	0.0	0.0	0.0
Profit for the year		**30.1**	**25.9**	**32.2**	**19.6**
Dividend	11	(12.7)	(11.0)	(12.7)	(11.0)
Retained profit for the year		**17.4**	**14.9**	**19.5**	**8.6**
Other comprehensive income					
Net gain on revaluation of property, plant and equipment		15.8	29.0	15.8	29.0
Net gain / (loss) on revaluation of available-for-sale investments		0.2	(3.1)	0.0	0.0
Net loss on revaluation of intangible assets		(0.1)	(0.1)	(0.1)	(0.1)
Total comprehensive income for the year		**33.3**	**40.7**	**35.2**	**37.5**

The notes on pages 72 to 97 form an integral part of these accounts.

Statement of changes in taxpayers' equity for the year ended 31 March 2015

Group

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2013		**228.4**	**50.4**	**39.9**	**318.7**	
Transfer to retained earnings				(1.1)	(1.1)	(1.1)
Surplus on revaluation of properties	12			23.4	23.4	23.4
Surplus on application of modified historic cost accounting to property, plant and equipment	12			6.7	6.7	6.7
Deficit on revaluation of non-current financial asset investments	13			(3.1)	(3.1)	(3.1)
Deficit on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				25.8	25.8	25.8
Net profit for the period		25.9			25.9	25.9
Dividend	11	(11.0)			(11.0)	(11.0)
Transfer from revaluation surplus		1.1			1.1	
Modified historic cost accounting	12, 14	0.4			0.4	
Balance at 31 March 2014		**244.8**	**50.4**	**65.7**	**360.9**	**40.7**
Transfer to retained earnings				(1.2)	(1.2)	(1.2)
Surplus on revaluation of properties	12			9.0	9.0	9.0
Surplus on application of modified historic cost accounting to property, plant and equipment	12			8.0	8.0	8.0
Surplus on revaluation of non-current financial asset investments	13			0.2	0.2	0.2
Deficit on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				15.9	15.9	15.9
Net profit for the period		30.1			30.1	30.1
Dividend	11	(12.7)			(12.7)	(12.7)
Transfer from revaluation surplus		1.2			1.2	
Modified historic cost accounting	12, 14	1.1			1.1	
Balance at 31 March 2015		**264.5**	**50.4**	**81.6**	**396.5**	**33.3**

Statement of changes in taxpayers' equity for the year ended 31 March 2015

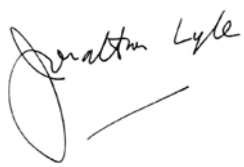
Trading Fund

	Note	Retained earnings £ million	Public dividend capital £ million	Revaluation surplus £ million	Total taxpayers' equity £ million	Total comprehensive income £ million
Balance at 1 April 2013		**234.6**	**50.4**	**34.7**	**319.7**	
Transfer to retained earnings				(1.1)	(1.1)	(1.1)
Surplus on revaluation of properties	12			23.4	23.4	23.4
Surplus on application of modified historic cost accounting to property, plant and equipment	12			6.7	6.7	6.7
Deficit on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				28.9	28.9	28.9
Net profit for the period		19.6			19.6	19.6
Dividend	11	(11.0)			(11.0)	(11.0)
Transfer from revaluation surplus		1.1			1.1	
Modified historic cost accounting	12, 14	0.4			0.4	
Balance at 31 March 2014		**244.7**	**50.4**	**63.6**	**358.7**	**37.5**
Transfer to retained earnings				(1.2)	(1.2)	(1.2)
Surplus on revaluation of properties	12			9.0	9.0	9.0
Surplus on application of modified historic cost accounting to property, plant and equipment	12			8.0	8.0	8.0
Deficit on application of modified historic cost accounting to intangible assets	14			(0.1)	(0.1)	(0.1)
Net gains recognised in the Statement of Comprehensive Income				15.7	15.7	15.7
Net profit for the period		32.2			32.2	32.2
Dividend	11	(12.7)			(12.7)	(12.7)
Transfer from revaluation surplus		1.2			1.2	
Modified historic cost accounting	12, 14	1.1			1.1	
Balance at 31 March 2015		**266.5**	**50.4**	**79.3**	**396.2**	**35.2**

Statement of Financial Position as at 31 March 2015

	Note	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Assets					
Non-current assets					
Property, plant and equipment	12	283.7	260.0	283.7	260.0
Financial assets	13	2.3	2.5	3.7	0.0
Investment in associate	13	0.0	0.0	0.0	0.0
Intangible assets	14	10.9	7.7	10.9	7.7
Receivables	17	0.6	0.6	0.6	0.7
Total non-current assets		297.5	270.8	298.9	268.4
Current assets					
Work in progress	16	2.8	0.7	2.8	0.7
Receivables	17	214.8	238.7	214.7	239.2
Short-term investments	17	5.0	10.0	5.0	10.0
Cash and cash equivalents	18	75.0	78.5	72.8	77.8
Total current assets		297.6	327.9	295.3	327.7
Total assets		595.1	598.7	594.2	596.1
Current liabilities					
Trade and other payables	19	183.9	219.7	183.3	219.3
Short-term provisions	20	0.5	0.5	0.5	0.5
Total current liabilities		184.4	220.2	183.8	219.8
Non-current assets plus net current assets		410.7	378.5	410.4	376.3
Non-current liabilities					
Other payables	19	12.9	16.1	12.9	16.1
Long-term provisions	20	1.3	1.5	1.3	1.5
Total non-current liabilities		14.2	17.6	14.2	17.6
Assets less liabilities		**396.5**	**360.9**	**396.2**	**358.7**
Taxpayers' equity					
Public dividend capital	25	50.4	50.4	50.4	50.4
Revaluation surplus		81.6	65.7	79.3	63.6
Retained earnings		264.5	244.8	266.5	244.7
Total taxpayers' equity		**396.5**	**360.9**	**396.2**	**358.7**

The financial statements were signed on 4 June 2015. The Accounting Officer authorised these financial statements for issue on 11 June 2015*



Jonathan Lyle, Chief Executive

*This represents the date the accounts were certified by the Comptroller and Auditor General.

Statement of cash flows for the year ended 31 March 2015

	Note	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Cash flows from operating activities					
Net profit before taxation		30.1	25.9	32.2	19.6
Adjustments for:					
Depreciation	3, 12	14.9	13.7	14.9	13.7
(Profit) / loss on sale of non-current financial asset investments	3, 13	(0.9)	0.0	0.0	2.9
Amortisation	3, 14	1.5	1.0	1.5	1.0
Write-down of financial assets held for sale	3	0.0	0.1	0.0	0.1
Operating profit before working capital changes		45.6	40.7	48.6	37.3
(Increase) / decrease in work in progress		(2.1)	1.3	(2.1)	1.3
(Increase) / decrease in receivables		29.0	(29.9)	26.7	(25.8)
Increase / (decrease) in payables		(35.6)	39.4	(35.8)	39.1
Use of provisions		(0.8)	(1.7)	(0.8)	(1.7)
Finance income		(0.5)	(0.4)	(0.4)	(0.4)
Finance expense		0.7	0.8	0.7	0.8
Net cash inflow from operating activities		36.3	50.2	36.9	50.6
Taxation paid		0.0	0.0	0.0	0.0
Cash flows from investing activities					
Purchases of property, plant and equipment		(21.3)	(32.4)	(21.3)	(32.4)
Purchases of non-current financial asset investments		0.0	0.0	(0.8)	0.0
Proceeds from sale of non-current financial asset investments		1.2	0.0	0.0	0.0
Purchases of intangible assets		(5.3)	(4.2)	(5.3)	(4.2)
Finance income		0.5	0.4	0.4	0.4
Net cash used in investing activities		(24.9)	(36.2)	(27.0)	(36.2)
Cash flows from financing activities					
Repayment of loans from MOD		(3.2)	(3.2)	(3.2)	(3.2)
Interest paid on loans		(0.7)	(0.8)	(0.7)	(0.8)
Dividend paid		(11.0)	(10.0)	(11.0)	(10.0)
Net cash used in financing activities		(14.9)	(14.0)	(14.9)	(14.0)
Net increase / (decrease) in cash and cash equivalents		(3.5)	0.0	(5.0)	0.4
Brought forward cash and cash equivalents		78.5	78.5	77.8	77.4
Carried forward cash and cash equivalents	**18**	**75.0**	**78.5**	**72.8**	**77.8**

1. Accounting policies

(a) Statement of accounting policies
The financial statements have been prepared in accordance with the 2014/15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. The particular policies adopted by the Group are described below. They have been applied consistently in dealing with items that are considered material to the accounts. The accounts of all Group undertakings are drawn up to 31 March 2015.

(b) Accounting convention
These accounts have been prepared under the historical cost convention, modified to account for revaluation of property, plant and equipment, intangible assets, and for the application of fair value where appropriate.

(c) Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, there are necessary judgements, estimates and assumptions made that affect the carrying amounts of certain assets and liabilities. Where information is not readily available, estimates and assumptions are made with reference to advice from management, technical experts, professional third parties, and from historical experience. The estimates and underlying assumptions are reviewed on an ongoing basis.

There have been no revisions of accounting judgement, or revisions to the application of estimation technique during the year. Revisions to accounting estimates are recognised during the period of revision and future periods if the revision affects both current and future periods.

(i) Critical judgements in applying accounting policies
The following are the critical judgements, apart from those involving estimates (see Note 1 (c) (ii) below), that the Group has made in the process of applying its accounting policies and have had significant effects on the financial statements. There have been no revisions to the application of accounting policies.

- **Valuation of property**
  The accounting policy for the valuation of freehold land and buildings is disclosed in Note 1 (e), and the valuations are disclosed in Note 12. With independent professional advice, the Group has concluded that the most appropriate method of valuation provided by the Royal Institute of Chartered Surveyors (RICS) is Depreciated Replacement Cost (DRC). The market for the Group's specialised laboratories and secure accommodation is extremely limited. The large size of the two main sites (Porton Down and Portsdown West) and their relatively remote locations has a limiting effect on the number of alternative users.

- **Biological High Containment Facility**
  Details of the facility and valuation are disclosed in Note 12. The Group consider that it is not possible to determine the facility's fair value less costs to sell. The Group therefore consider the facility's recoverable amount to be its value in use.

- **Financial assets available-for-sale**
  The Group's wholly owned subsidiary, Ploughshare Innovations Ltd (Ploughshare), holds equity investments in other entities. The Group considers that it does not have direct control, participating control or interests in any of these investments that influence their activities and exposes the Group to variability of returns from their performance. The equity investments are disclosed as non-current available-for-sale financial assets and are valued annually using the British Venture Capital Association (BVCA) Guidelines. The investments are unlisted. The Group therefore considers the price of most recent investment, discounted using market intelligence, to be the most appropriate. See Note 1 (c) (ii) below and Note 13 for further details.

(ii) Key sources of estimation uncertainty
The following are the key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

- **Accruals**
  Accruals are estimated with reference to available documentation, advice from the relevant Project Manager, information provided by third parties, and from experience gained from previous years. Third-party verification is sought from suppliers of all sub-contracted research where the value of uninvoiced work is expected to be £100,000 or above. The total cost of sales accrual is £73.6 million.

  Staff holiday is not recorded on central management information systems and therefore the holiday pay accrual calculation is an area of estimation uncertainty. The estimate is based on daily pay, using the mid-point for each pay scale. This is applied to the total calculated holiday entitlement for all employees by pay scale. An appropriate proportion is assumed to be outstanding at the year end. The proportion applied is derived from periodic sample testing. The last sample testing was performed during 2013 from which an estimate of 32 per cent of all annual holiday was considered to be outstanding at the financial year end. The total annual holiday accrual liability is £6.6 million. A variance of five per cent to the proportion of holiday entitlement outstanding would vary this liability by £1.0 million.

- **Fair value non-current financial assets available-for-sale**
  Ploughshare performs the valuations following BVCA Guidelines (see Note 1 (c) (i) above). A market discount is applied based on market intelligence. If no discount was applied, the total valuation would be £5.6 million. Further information is provided in Note 13.

- **Modified Historic Cost Accounting (MHCA)**
  Non-current plant and equipment and non-current intangible assets are reported at fair value by applying various indices provided by the Office of National Statistics (ONS). Freehold land and buildings are subject to a rolling programme of quinquennial revaluation by an independent professional valuer. RICS indices are applied to building valuations in the years between independent professional

valuations. An index provided by ONS is applied to freehold land valuations in the years between independent professional valuations.

There are inherent valuation uncertainties. A professional's valuation will depend on the methodology and judgement. Where indices are applied, the values are dependent on the particular index adopted. For consistency and comparability, the same index for each class of asset is applied every year. Further information is provided in Note 1 (e), (f) and (g).

- **Depreciation and amortisation**
  Depreciation of property, plant and equipment, and amortisation of intangible assets, is based on the useful economic life of the asset. Remaining useful economic lives are reviewed at least annually. The basis for estimating a remaining useful economic life includes experience of similar assets, the condition and performance of the asset, and knowledge of technological advances and obsolescence. Remaining useful economic lives are revised, where appropriate, to reflect changing circumstances. The net book value of the asset at the time of the revision will be depreciated on a straight-line basis over the revised remaining useful economic life.

  With respect to the depreciation of buildings, an independent professional evaluation of their remaining useful economic lives is performed during the quinquennial rolling valuation programme. Further information is provided in Note 1 (e), (f) and (g).

- **Business-in-use valuation**
  A business-in-use valuation based on discounted projected cash flows has been adopted for the specialised Biological High Containment Facility. Further information, including the valuation's sensitivity to a variety of assumptions is disclosed in Note 12.

- **Provisions**
  The measurement of early departure provisions are derived from information provided by the Cabinet Office (My Civil Service Pension). Variations on crystallisation of the liability are not considered material. The measurement of dilapidation provision is based on a third-party estimate provided during 2009. The Retail Price Index has been applied to derive its current value. Further disclosures are provided in Note 20.

(d) Basis of consolidation
The consolidated accounts incorporate the accounts of the Trading Fund with its associate, Tetricus Ltd, and its wholly owned subsidiary undertaking, Ploughshare.

The subsidiary undertaking, which the Trading Fund has the power to control, has been consolidated according to International Accounting Standard (IAS)27: Consolidated and Separate Financial Statements. The associate, over which the Trading Fund has the power to exercise significant influence, has been consolidated using the equity method.

(e) Property, plant and equipment
All assets are independently inspected on a five-year rolling programme.
The valuation bases for different classes of asset are as follows:
Land and buildings:
Where valuations are carried out, they are performed using RICS Red Book methods.
Porton Down – DRC
Portsdown West – DRC
For land and buildings that have been declared surplus
– Market Value
Specialised facilities
– Lower of DRC and recoverable amount.
The recoverable amount is calculated as the greater of:
(i) the estimated net present value of the cash flows derived from the continued use of the asset in its current state;
(ii) the estimated net sale proceeds of the asset.
Plant, machinery, computers and office equipment
– Modified historic cost accounting.
Property is revalued in the years between professional independent valuations using the following indices:
Land – Retail Price Index
Buildings – Buildings Cost Information Service (BCIS), All-In Tender Price Index.
Plant, machinery, computers and office equipment assets are revalued using relevant indices published by ONS.
Plant, machinery, computers and office equipment are capitalised where the cost of acquisition is greater than £10,000.
Depreciation is provided on a straight-line basis over the useful economic lives of the assets, which are as follows:

Freehold land	Not depreciated
Freehold buildings	1 – 50 years
Plant and machinery	1 – 25 years
Computers and office equipment	1 – 10 years

Details of property, plant and equipment values included within these financial statements are disclosed in Note12.

(f) Donated assets
Plant and equipment donated to the Trading Fund for which no consideration was given are brought onto the Statement of Financial Position at their fair value and are revalued and depreciated on the same basis as purchased assets. The fair value at initial recognition is credited to the Statement of Comprehensive Income as other operating income.

(g) Intangible assets
Intangible assets comprise purchased software licences and the cost of software developed in-house where there is reliable cost information and it is probable that the asset will give rise to future economic benefit. The minimum level for capitalisation of intangible assets is £10,000. Amortisation is on a straight-line basis over the shorter of the licence term or the useful economic life. Intangible assets are revalued annually using the Retail Price Index (excluding housing) published by ONS. The useful economic lives of intangible assets are considered to fall within 1 to 10 years.

(h) Impairment
The carrying value of the Group's non-current assets are reviewed during the year to determine whether there is any indication of impairment. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairments are first offset through other comprehensive income where sufficient revaluation surplus exists. If impairment is through consumption of economic benefit, or there is insufficient revaluation surplus, it is charged through profit or loss. Impairment losses will be reversed if there is an increase in the fair value or service potential of a previously impaired asset. The increased carrying amount attributable to a reversal of an impairment is first credited to profit or loss to the extent of any original charge to profit or loss. Any remaining balance, or the whole reversal (if impairment was fully offset through other comprehensive income), will be credited through other comprehensive income.

(i) Research and development
Research and development expenditure incurred during work on a contract for a customer is chargeable to the customer. Internally funded research expenditure is charged to the Statement of Comprehensive Income as incurred.

(j) Work in progress
Work in progress represents costs incurred on firm-price contracts and is stated at the lower of cost and net realisable value.

(k) Amounts recoverable under contract
Amounts recoverable under contract represent turnover recognised in excess of the values invoiced (net of VAT) on cost-plus contracts and will include an appropriate amount of profit attributed to the contract.

(l) Financial instruments
Financial assets and liabilities are recognised where the Group has become a party to contractual terms of a financial instrument. Financial instruments are initially measured at fair value, which is usually cost. Long-term loans are measured at amortised cost using the effective interest rate method. Available-for-sale investments are measured at fair value. Unrealised gains and losses arising from changes in fair value are recognised in Other Comprehensive Income.

(m) Provisions
Provisions are made where the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that a reliably measured economic outflow will result. Provisions are measured taking into account the risks and uncertainties surrounding the obligation. Where possible, information from third parties is used as a basis for deriving the estimated liability.

(n) Pensions
Past and present employees are covered by the provisions of the Principle Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer scheme providing benefits based on final salary. The Trading Fund is unable to identify its share of the underlying assets and liabilities and therefore it accounts for the scheme as if it was a defined contribution scheme. As a result, the amount charged to the Statement of Comprehensive Income represents the contributions payable to the scheme in respect of the accounting period. Details of rates and amounts of contributions during the year are given in Note 7.

(o) Foreign currencies
Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currency are retranslated at the rates of exchange ruling at the Statement of Financial Position date. Gains and losses arising on retranslation are included in the Statement of Comprehensive Income.

(p) Turnover
Turnover is recognised when the significant risks and rewards of ownership have been transferred to the buyer and there is reasonable certainty of recovery of the consideration receivable. For cost-plus contracts, turnover is recognised as work is performed, and includes an appropriate amount of profit. For firm-price contracts, turnover is recognised as agreed milestones are reached or as deliverables are met. An appropriate amount of profit is attributed where there is reasonable certainty of the final outcome. Losses are recognised as soon as they are foreseen.

(q) Segmental reporting
The principal activities of the Group are managed through Departments, as disclosed in Note 30 on segmental reporting. The accounting policies of the operating segments are the same as those of the Group. Corporate overheads are allocated to operating segments of the Trading Fund on the basis of headcount with the exception of estates management charges, which are allocated on area of occupation. Inter-segment sales and transfers within the Trading Fund are at cost. Trading with Ploughshare is on an arm's-length basis.

(r) Reserves within taxpayers' equity
The revaluation surplus represents taxpayers' equity arising from increases in the value of non-current assets. For buildings, the difference between depreciation charged on the total revalued amount and the depreciation relating to the original historic cost of the asset is transferred to retained earnings.

(s) IFRS, amendments and interpretations in issue but not yet effective or adopted
IAS8: Accounting Policies, Changes in Accounting Estimates and Errors requires disclosures in respect of new IFRS, amendments and interpretations that are or will be applicable after the reporting period. There are a number of standards, amendments and interpretations issued by the IAS Board that are effective for financial statements after this reporting period. The following have not been adopted early by the Group:

IFRS13: Fair Value
A new standard setting out principles for the calculation and disclosure of fair value. The effective date of adoption by HM Treasury is 1 April 2015. The standard has resulted in HM Treasury adapting IAS16: Property, Plant and Equipment. The new standard and adaptions to IAS16 have been reviewed and are not expected to have a future material impact on the financial statements of the Group.

IFRS15: Revenue from Contracts with Customers
A new standard intended to replace previous revenue standards IAS11 and IAS18. The new standard sets out the requirements for recognising revenue that apply to all contracts (except contracts that are within the scope of the standards on leases, insurance contracts and financial instruments). IFRS15 establishes a framework for determining when to recognise revenue and how much revenue to recognise. The effective date is for accounting periods beginning on or after 1 January 2017. The standard has been reviewed and is not expected to have a future material impact on the financial statements of the Group.

2. Turnover

Turnover by major class of customer is analysed as follows:	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
MOD:	607.4	616.7	607.4	616.7
Chief Scientific Adviser	406.7	397.7	406.7	397.7
Other	200.7	219.0	200.7	219.0
Non-MOD:	45.5	44.2	44.9	43.7
Wider Government	29.7	27.7	29.7	27.7
Non-Exchequer income	15.3	16.1	15.2	16.0
Non-Exchequer equity sales, royalty income and licensing income	0.5	0.4	0.0	0.0
Total	**652.9**	**660.9**	**652.3**	**660.4**

Turnover is categorised according to the main contracted customer. All turnover relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling and no other geographical market has contributed significantly to turnover. See Note 30 for operating segment disclosures.

For the current year, the reporting categories of MOD turnover have been revised to differentiate Chief Scientific Adviser (CSA) turnover from total MOD turnover. CSA turnover is more clearly defined, making it more understandable as management information and for users of financial statements. The comparatives have been re-stated on the same basis of categorisation.

3. Operating profit

This is stated after charging / (crediting):	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Depreciation charge for year:	14.9	13.7	14.9	13.7
Depreciation of owned property, plant and equipment	13.3	11.9	13.3	11.9
Exceptional costs of impairment of property, plant and equipment	0.8	1.0	0.8	1.0
Adjustment valuation of property, plant and equipment	0.8	0.8	0.8	0.8
Amortisation charge for the year:	1.5	1.0	1.5	1.0
Amortisation of software licences	1.5	1.0	1.5	1.0
Profit on sale of financial asset available-for-sale[1]	(0.9)	0.0	0.0	0.0
Impairment of non-current financial asset investment	0.0	0.1	0.0	0.1
Loss on transfer of non-current financial asset investment[2]	0.0	0.0	0.0	2.9
Operating lease rentals: property	3.9	4.1	3.9	4.1
Travel, subsistence and hospitality	2.6	2.0	2.6	2.0
Doubtful debt provision[3]	0.0	0.0	(2.2)	4.6
Foreign exchange (gains) / losses	(0.1)	0.1	(0.1)	0.1
Auditor's remuneration and expenses[4]	0.1	0.1	0.1	0.1
Other operating income	(7.0)	(5.3)	(7.4)	(5.8)

[1] During the year, Ploughshare sold its entire holding in P2i Ltd for £1,186 thousand, which resulted in a profit to the Group of £857 thousand.

[2] During the previous year, equity which had transferred during the year ending 31 March 2013 at a value of £3.0 million, was revised to a transfer value of £nil.

[3] This relates to the outstanding debt held with Ploughshare. Prospects of settlement in the foreseeable future are considered doubtful. The full provision for doubtful debts was maintained resulting in a charge for the year of £0.4 million. During the year there was a £2.6 million (net of VAT) reversal of doubtful debt provision through profit or loss following a £2.9 million debt to equity conversion. See Note 27 for details.

[4] The audit fee is £69,500 (2013/14: £69,500). During the years ending 31 March 2014 and 31 March 2015, the Group did not contract any non-audit services from its external auditor, the National Audit Office (NAO).

4. Significant operating items

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
i lab[1]	0.4	1.5	0.4	1.5
Helios[2]	1.3	1.5	1.3	1.5
Impairment of Portsdown Main land[3]	0.0	0.7	0.0	0.7
Magazine and associated materials processing facilities[4]	1.7	0.6	1.7	0.6
Donated assets[5]	(1.8)	0.0	(1.8)	0.0
Total	**1.6**	**4.3**	**1.6**	**4.3**

[1] Costs of withdrawal from the Trading Fund's sites at Farnborough and Malvern under the i lab rationalisation programme.

[2] Costs of withdrawal from the Trading Fund's site at Fort Halstead under the Helios Project.

[3] During the previous year, land at Portsdown Main was impaired by £0.7 million. The valuation remained unchanged for the current year.

[4] Cost of delay and design associated with review of incorporating additional processing facilities (2015) and exceptional inclement weather (2014).

[5] Non-current plant and equipment donated by the Home Office and reported as other operating income.

5. Key corporate financial target

The Trading Fund defines its Return on Capital Employed (ROCE) as follows:
a. Return – modified historical cost profit on ordinary activities before interest and dividends.
b. Capital employed – average capital and reserves, being public dividend capital, long-term loans, and reserves.

The ROCE target set by MOD is to achieve a five-year average of 3.5 per cent during the period from 1 April 2012 to 31 March 2017.

The annual ROCE calculation is:

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Profit on ordinary activities before interest and taxation	30.3	26.3	32.5	20.0
Public dividend capital	50.4	50.4	50.4	50.4
Long-term loan	12.9	16.1	12.9	16.1
Reserves	346.1	310.5	345.8	308.3
Capital employed at year end	409.4	377.0	409.1	374.8
Average capital employed during the year	393.2	357.6	392.0	357.0
ROCE	**7.7%**	**7.4%**	**8.3%**	**5.6%**

The average ROCE for the period 1 April 2012 to 31 March 2015 is:

	1 April 2012		31 March 2015	
	Group £ million	Trading Fund £ million	Group £ million	Trading Fund £ million
Average profit on ordinary activities before interest and taxation for the three years to 31 March 2015			27.5	27.4
Public dividend capital	50.4	50.4	50.4	50.4
Long-term loan	22.5	22.5	12.9	12.9
Reserves	252.0	252.3	346.1	345.8
Total capital employed	324.9	325.2	409.4	409.1
Average capital employed during the period			367.2	367.2
ROCE			**7.5%**	**7.5%**

6. Trading Fund Board members' emoluments

Details of members' emoluments are shown in the Remuneration Report.
They are summarised as follows:

	2015 £'000	2014 £'000
Salaries, NCPAs and fees	**918.1**	**1,006.1**

7. Employee information

The average Full-Time Equivalent number of persons (including members of the Board) employed during the year was:

	2015 Group Number	2014 Group Number	2015 Trading Fund Number	2014 Trading Fund Number
Professional and technical staff	2,904	2,938	2,892	2,925
Administrative and industrial staff	681	709	678	706
Secondees	99	71	99	71
Agency and contract staff	169	189	169	189
Total	**3,853**	**3,907**	**3,838**	**3,891**

Staff costs incurred during the year in respect of these employees were:

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Wages and salaries	144.4	140.8	143.7	140.1
Social security costs	12.4	12.2	12.3	12.1
Other pension costs	26.5	25.9	26.4	25.8
Agency and contract staff	22.5	24.0	22.5	24.0
Total	**205.8**	**202.9**	**204.9**	**202.0**

During the year, £34.0 thousand staff costs were capitalised (2013/14: £156.6 thousand).

The employees of the Trading Fund are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS). The PCSPS is an unfunded multi-employer defined benefit scheme but the Trading Fund is unable to identify its share of the underlying assets and liabilities.

The scheme actuary valued the scheme as at 31 March 2012. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice.gov.uk/pensions). For 2014/15, employer contributions of £26.1 million were payable to the PCSPS (2013/14: £25.6 million) at one of four rates in the range 16.7 per cent to 24.3 per cent of pensionable earnings, based on salary bands. The scheme Actuary reviews employer contributions usually every four years following a full scheme valuation. The contribution rates are set to meet the cost of the benefits accruing during 2014/15 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employer contributions of £213,778 were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age related and range from 3 per cent to 12.5 per cent of pensionable earnings. The employer also matches employee contributions up to 3 per cent of pensionable earnings. In addition, employer contributions of £12,953, representing 0.8 per cent of pensionable earnings, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service, or ill-health retirement of these employees.

Contributions due to the partnership pension providers at 31 March 2015 were £18,302. There were no prepaid contributions at that date.

Six people retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £18,239 for these individuals.

Exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the Civil Service Compensation Scheme, a statutory scheme, made under the Superannuation Act 1972. Exit costs are accounted for in full in the year of departure. Where the Trading Fund has agreed early retirements, the additional costs are met by the Trading Fund and not by the PCSPS. Ill-health retirement costs are met by the pension scheme and are not included in the table below. Comparatives for the previous year are shown in brackets.

Exit package cost band	Number of compulsory redundancies	Number of other departures agreed	Total number of exit packages by cost band
Less than £10,000	2 (0)	1 (2)	3 (2)
£10,000 - £25,000	0 (0)	3 (7)	3 (7)
£25,001 - £50,000	0 (1)	13 (11)	13 (12)
£50,001 - £100,000	0 (1)	1 (9)	1 (10)
£100,001 - £150,000	0 (0)	0 (0)	0 (0)
£150,001 - £200,000	0 (0)	0 (0)	0 (0)
More than £200,000	0 (0)	0 (0)	0 (0)
Total number of exit packages	2 (2)	18 (29)	20 (31)
Total cost of exit packages (£)	18,249 (129,844)	640,185 (1,139,197)	658,434 (1,269,041)

8. Finance income

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Interest received and receivable from bank accounts and short-term deposits	0.5	0.4	0.4	0.4
Total	**0.5**	**0.4**	**0.4**	**0.4**

9. Finance expense

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Interest paid and payable on loans	0.7	0.9	0.7	0.9
Financial instrument re-measurement movement	0.0	(0.1)	0.0	(0.1)
Total	**0.7**	**0.8**	**0.7**	**0.8**

One payment was made under the Late Payments of Commercial Debts (Interest) Act 1998 of £400 (2013/14: £nil).

10. Taxation

The Trading Fund is not subject to income or corporation tax in the UK under Section 829(2) of the Income and Corporation Taxes Act 1988, and consequently the requirements to account for current tax and deferred tax under IAS12 are not relevant to the Trading Fund. However, Ploughshare is liable to pay corporation tax in the UK on its taxable profits.

The tax charge on the profit on ordinary activities for the year was as follows:

	2015 Group £ million	2014 Group £ million
Current tax:		
UK corporation tax	0.0	0.0

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2015 £ million	2014 £ million
Group profit on ordinary activities before tax	30.1	25.9
less Trading Fund profit (exempt) and consolidation adjustments on ordinary activities before tax	(29.8)	(26.9)
Profit / (loss) on ordinary activities before tax	**0.3**	**(1.0)**
Profit / (loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 21 per cent (2013/14: 21 per cent)	0.1	(0.2)
Effects of:		
Income on disposal of assets	(1.2)	0.0
Unutilised trading losses carried forward	1.1	0.2
Current tax charge	**0.0**	**0.0**

Ploughshare has unutilised gross trading losses carried forward of £6.6 million (2013/14: £5.7 million). No provisions for deferred tax have been made.

11. Dividends

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Ordinary dividend payable	12.7	11.0	12.7	11.0
Total	**12.7**	**11.0**	**12.7**	**11.0**

Dividends payable to MOD are set by agreement with the Secretary of State.

12. Property, plant and equipment

Group and Trading Fund

The accounting policy for property, plant and equipment is covered in Note 1.
Property, plant and equipment movements during the year were as follows:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2014	40.5	167.0	0.1	92.5	14.8	38.3	353.2
Additions	0.0	0.0	0.0	2.1	0.2	18.3	20.6
Disposals	0.0	0.0	0.0	(0.6)	0.0	0.0	(0.6)
Transfers	0.0	1.7	0.0	1.9	8.8	(12.4)	0.0
Revaluations	0.4	12.2	0.0	1.8	(0.5)	0.0	13.9
Balance at 31 March 2015	**40.9**	**180.9**	**0.1**	**97.7**	**23.3**	**44.2**	**387.1**
Depreciation:							
Balance at 1 April 2014	0.0	(27.5)	(0.1)	(56.6)	(9.0)	0.0	(93.2)
Charge for year:							
historical	0.0	(5.3)	0.0	(4.3)	(3.7)	0.0	(13.3)
supplementary	0.0	(1.1)	0.0	(1.3)	0.0	0.0	(2.4)
downward revaluation	0.0	0.0	0.0	0.0	0.8	0.0	0.8
impairment	0.0	0.0	0.0	(0.7)	0.0	0.0	(0.7)
Disposals	0.0	0.0	0.0	0.6	0.0	0.0	0.6
Revaluations	0.0	4.8	0.0	0.0	0.0	0.0	4.8
Balance at 31 March 2015	**0.0**	**(29.1)**	**(0.1)**	**(62.3)**	**(11.9)**	**0.0**	**(103.4)**
Net modified historic cost:							
Balance at 31 March 2015	**40.9**	**151.8**	**0.0**	**35.4**	**11.4**	**44.2**	**283.7**
Balance at 1 April 2014	40.5	139.5	0.0	35.9	5.8	38.3	260.0

Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with IAS16: Property, Plant and Equipment. Please refer to the Accounting Policy Notes 1 (c) and (e) for the basis of valuation.

Portsdown Main is valued annually. The latest valuation was carried out as at 31 January 2015 on a Market Value basis by Alder King LLP, Property Consultants. The land and building assets at Portsdown West were valued by GVA Ltd, Chartered Surveyors as at 31 March 2013. A third of all building assets at Porton Down were valued by Alder King LLP, Property Consultants as at 31 March 2015. The remaining two thirds of Porton Down building assets were valued by GVA Ltd, Chartered Surveyors during the five-year period ending 31 March 2014. The land at Porton Down was valued by GVA Ltd, Chartered Surveyors as at 31 March 2014.

The published figures for land and buildings include:
- a professional external valuation of Portsdown Main as at 31 January 2015
- a professional external valuation of the land and building assets at Portsdown West as at 31 March 2013
- a professional external valuation of the land at Porton Down as at 31 March 2014
- a professional external valuation of a third of the building assets at Porton Down as at 31 March 2015
- a professional external valuation of all of the remaining buildings at Porton Down during the periods ending 31 March 2010, 2011, 2012 and 2014

The valuation of Portsdown Main remained unchanged (2013/14 £0.7 million impairment).

Included within freehold land and freehold buildings are properties from which rental income is derived. These are not material and are not disclosed separately.

Included within assets in the course of construction is a cost of £91,678 that relates to the construction of electric car charge points at the Porton Down and Portsdown West sites, against which grant contributions have been received from the Department for Transport (£54,089), and Portsmouth City Council (£16,000). The grant revenue was received during the current period (2013/14: £nil), and is included within other operating income.

Included within plant and machinery are thirty assets that were donated by the Home Office during the year. A sub-set of the note is as follows:

	Plant and machinery - donated assets £ thousand
Valuations and gross modified historic costs:	
Balance at 1 April 2014	0.0
Additions	1,829.3
Balance at 31 March 2015	**1,829.3**
Depreciation:	
Balance at 1 April 2014	0.0
Charge for year: historical	(29.9)
Balance at 31 March 2015	**(29.9)**
Net modified historic cost:	
Balance at 31 March 2015	**1,799.4**
Balance at 1 April 2014	**0.0**

Biological High Containment Facility

This facility enables the Trading Fund to maintain the UK strategic sovereign capability for assessing hazards from current and emerging chemical and biological threats. The facility is a separately identifiable cash generating unit that consists of a group of assets, which is reported within the figures for freehold buildings, and plant and machinery.

An annual business-in-use valuation is performed on the facility, which includes cash flows from staff and facility income that are largely independent from other assets. This includes on-going capacity support income from MOD used to under-write any shortfall where the cost to run the facility exceeds turnover generated. The valuation for the facility is £9.1 million (2013/14: £10.1 million). The facility's remaining useful economic life is estimated to be 20 years (2013/14: 21 years). The discount rate applied remains at 3.5 per cent, representing the required ROCE set by MOD, disclosed in Note 5.

The business-in-use valuation is sensitive to a variety of assumptions. The most significant include:
– the discount factor
– the percentage of shortfall covered by an on-going capacity support income from MOD
– income generation from customer demand for the use of the facility by the Trading Fund's micro-biology scientists.

To enable a greater understanding of the sensitivity of the valuation to these variables, an analysis has been performed as follows:

		Facility utilisation by micro-biology staff				
		0% £ million	3% £ million	30% £ million	60% £ million	90% £ million
2% discount factor						
Capacity support:	50%	(26.1)	(25.3)	(17.7)	(9.4)	(1.0)
	75%	(8.1)	(7.2)	0.3	8.6	17.0
	100%	9.9	10.8	18.3	26.7	35.0
3.5% discount factor						
Capacity support:	50%	(22.9)	(22.1)	(15.6)	(8.3)	(1.1)
	75%	(7.2)	(6.5)	0.0	7.3	14.6
	100%	8.4	9.1	15.7	22.9	30.2
5% discount factor						
Capacity support:	50%	(20.2)	(19.5)	(13.8)	(7.4)	(1.0)
	75%	(6.5)	(5.9)	(0.1)	6.2	12.6
	100%	7.2	7.8	13.5	19.9	26.3

The comparatives for the year ended 31 March 2014 are:

	Freehold land £ million	Freehold buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Valuations and gross modified historic cost:							
Balance at 1 April 2013	25.0	159.0	0.1	88.3	12.5	16.1	301.0
Additions	0.0	0.0	0.0	0.6	0.1	31.4	32.1
Disposals	0.0	0.0	0.0	(0.9)	(0.1)	0.0	(1.0)
Transfers	0.0	0.5	0.0	5.6	3.1	(9.2)	0.0
Revaluations	16.2	7.5	0.0	(1.1)	(0.8)	0.0	21.8
Impairment	(0.7)	0.0	0.0	0.0	0.0	0.0	(0.7)
Balance at 31 March 2014	**40.5**	**167.0**	**0.1**	**92.5**	**14.8**	**38.3**	**353.2**
Depreciation:							
Balance at 1 April 2013	0.0	(28.6)	(0.1)	(53.6)	(7.4)	0.0	(89.7)
Charge for year:							
historical	0.0	(5.5)	0.0	(4.1)	(2.1)	0.0	(11.7)
supplementary	0.0	(1.6)	0.0	0.0	0.0	0.0	(1.6)
downward revaluation	0.0	0.0	0.0	0.2	0.4	0.0	0.6
impairment	0.0	(0.3)	0.0	0.0	0.0	0.0	(0.3)
Disposals	0.0	0.0	0.0	0.9	0.1	0.0	1.0
Revaluations	0.0	8.5	0.0	0.0	0.0	0.0	8.5
Balance at 31 March 2014	**0.0**	**(27.5)**	**(0.1)**	**(56.6)**	**(9.0)**	**0.0**	**(93.2)**
Net modified historic cost:							
Balance at 31 March 2014	**40.5**	**139.5**	**0.0**	**35.9**	**5.8**	**38.3**	**260.0**
Balance at 1 April 2013	25.0	130.4	0.0	34.7	5.1	16.1	211.3

13. Non-current financial assets

	Trading Fund subsidiary undertaking £ million	Trading Fund Total £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
Cost or valuation:					
Balance at 1 April 2014	0.0	0.0	0.0	2.5	2.5
Additions[1]	3.7	0.0	3.7	0.0	0.0
Disposals[2]	0.0	0.0	0.0	(2.0)	(2.0)
Revaluations[3]	0.0	0.0	0.0	1.8	1.8
Balance at 31 March 2015	**3.7**	**0.0**	**3.7**	**2.3**	**2.3**

[1] During the year, the Trading Fund increased its investment in Ploughshare. The Trading Fund made a £0.75 million cash investment in Ploughshare in exchange for 750,000 £1 ordinary shares. The Trading Fund also exchanged £2.9 million of debt owed to the parent company by Ploughshare, for 2,959,999 £1 ordinary shares.

[2] During the year, Ploughshare sold its entire available-for-sale investment in P2i Ltd, previously valued at £2,001 thousand. The profit on sale reported in the Statement of cash flows and in Note 3 is derived from the proceeds of £1,186 thousand less the original cost of investment and costs to sell, with the balance of the previous valuation being reversed through the revaluation reserve.

[3] All available-for-sale investments owned by the Group are held by Ploughshare. A valuation of the available-for-sale investments has been performed by Ploughshare. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking. Ploughshare derives fair value by following the BVCA Guidelines. Its approach is by application of the price of most recent investment to the number of shares held, and discounting by an appropriate market-based factor. Ploughshare, which manages the Group's equity investments, is able to apply market intelligence to the valuations. The movement in valuation of the Group's available-for-sale investments is detailed on the following page:

	2015 £'000	2014 £'000	Movement £'000
Claresys Ltd	409.1	331.1	78.0
Enigma Diagnostics Ltd	1,712.2	0.0	1,712.2
Esroe Ltd	54.1	54.1	0.0
Subsea Asset Location Technologies Ltd	129.4	115.1	14.3
			1,804.5

The valuation of Enigma has increased from £nil to £1.7 million due to increased investment to get its product to market. During the year, Enigma signed a US $50 million subscription agreement with Chinese private equity fund, Shanghai Debay Capital LLP. The funding will be used to support global commercialisation of Enigma's product.

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2015 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
Subsidiary										
Ploughshare Innovations Ltd	Great Britain	100.0%	Ordinary of £1	31 March 2015	0.7	0.3	5.6	3.1	2.5	Technology transfer management

Draft statutory accounts for the year ended 31 March 2015 have been used due to a different timetable for preparing audited accounts.

Associate										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2015	0.4	0.1	0.3	0.1	0.2	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2015 have been used due to a different timetable for preparing audited accounts.

The comparatives for the year ended 31 March 2014 are:

	Trading Fund subsidiary undertaking £ million	Trading Fund associate £ million	Trading Fund Total £ million	Group investments and associate £ million	Group Total £ million
Cost or valuation:					
Balance at 1 April 2013	3.0	0.0	3.0	5.6	5.6
Revaluations	(3.0)	0.0	(3.0)	(3.1)	(3.1)
Balance at 31 March 2014	**0.0**	**0.0**	**0.0**	**2.5**	**2.5**

Further details of the subsidiary and associate owned directly by the Trading Fund as at 31 March 2014 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Turnover £ million	Profit / (loss) for year £ million	Total assets £ million	Total liabilities £ million	Aggregate capital and reserves £ million	Nature of business
Subsidiary										
Ploughshare Innovations Ltd	Great Britain	100.0%	Ordinary of £1	31 March 2014	0.7	(1.0)	3.6	5.7	(2.1)	Technology transfer management

Draft statutory accounts for the year ended 31 March 2014 were used due to a different timetable for preparing audited accounts.

Associate										
Tetricus Ltd	Great Britain	33.3%	Ordinary C of £1	31 March 2014	0.4	0.1	0.2	0.1	0.1	Business support to biotechnology start-ups

Management accounts for 12 months to the year ended 31 March 2014 were used due to a different timetable for preparing audited accounts.

14. Intangible assets

Group and Trading Fund

The accounting policy for intangible assets is covered in Note 1.
Intangible asset movements during the year were:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:			
Balance at 1 April 2014	6.6	5.3	11.9
Additions	0.0	4.8	4.8
Transfers	3.1	(3.1)	0.0
Balance at 31 March 2015	**9.7**	**7.0**	**16.7**
Amortisation:			
Balance at 1 April 2014	(4.2)	0.0	(4.2)
Charge for year:			
historical	(1.5)	0.0	(1.5)
supplementary	(0.1)	0.0	(0.1)
Balance at 31 March 2015	**(5.8)**	**0.0**	**(5.8)**
Net modified historic cost:			
Balance at 31 March 2015	**3.9**	**7.0**	**10.9**
Balance at 1 April 2014	2.4	5.3	7.7

The comparatives for the year ended 31 March 2014 are:

	Purchased software licences £ million	Software assets under construction £ million	Total £ million
Gross modified historic cost:			
Balance at 1 April 2013	5.8	0.9	6.7
Additions	0.2	4.9	5.1
Transfers	0.5	(0.5)	0.0
Revaluations	0.1	0.0	0.1
Balance at 31 March 2014	**6.6**	**5.3**	**11.9**
Amortisation:			
Balance at 1 April 2013	(3.1)	0.0	(3.1)
Charge for year:			
historical	(1.0)	0.0	(1.0)
supplementary	(0.1)	0.0	(0.1)
Balance at 31 March 2014	**(4.2)**	**0.0**	**(4.2)**
Net modified historic cost:			
Balance at 31 March 2014	**2.4**	**5.3**	**7.7**
Balance at 1 April 2013	2.7	0.9	3.6

15. Impairments

Impairments occurring during the year were either charged to Profit or Loss, or Other Comprehensive Income as follows:

Group

	Note	2015 Profit or Loss £ million	2014 Profit or Loss £ million	2015 Other Comprehensive Income £ million	2014 Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	13	0.0	0.1	0.0	3.0
Investment in Subsea Asset Location Technologies Ltd	13	0.0	0.0	0.0	0.3
Portsdown Main site	12	0.0	0.7	0.0	0.0
Biological High Containment Facility	12	0.7	0.0	0.0	0.0
Buildings (including MHCA*)	12	0.3	0.4	2.5	0.0
Plant and machinery (MHCA)	12	0.2	0.0	0.0	0.8
Computer equipment (MHCA)	12	0.8	0.8	0.0	0.0
Total		**2.0**	**2.0**	**2.5**	**4.1**

*Modified Historic Cost Accounting.

Trading Fund

	Note	2015 Profit or Loss £ million	2014 Profit or Loss £ million	2015 Other Comprehensive Income £ million	2014 Other Comprehensive Income £ million
Investment in Enigma Diagnostics Ltd	13	0.0	0.1	0.0	2.9
Portsdown Main site	12	0.0	0.7	0.0	0.0
Biological High Containment Facility	12	0.7	0.0	0.0	0.0
Buildings (including MHCA)	12	0.3	0.4	2.5	0.0
Plant and machinery (MHCA)	12	0.2	0.0	0.0	0.8
Computer equipment (MHCA)	12	0.8	0.8	0.0	0.0
Total		**2.0**	**2.0**	**2.5**	**3.7**

16. Work in progress

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Central Government bodies	2.6	0.7	2.6	0.7
Non-public sector organisations	0.2	0.0	0.2	0.0
Total	**2.8**	**0.7**	**2.8**	**0.7**

17. Trade receivables and other current assets

Amounts falling due within one year:	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Short-term investments	**5.0**	**10.0**	**5.0**	**10.0**
Trade receivables	**37.3**	**31.2**	**37.2**	**31.0**
Central Government bodies	35.9	30.1	35.9	30.1
Non-public sector organisations	1.4	1.1	1.3	0.9
Amounts recoverable under contracts	**171.3**	**199.8**	**171.3**	**199.8**
Central Government bodies	169.9	197.9	169.9	197.9
Non-public sector organisations	1.4	1.9	1.4	1.9
Deposits and advances – staff receivables	**0.3**	**0.5**	**0.3**	**0.5**
Other receivables – Central Government bodies	**0.5**	**0.4**	**0.5**	**1.1**
Taxation	**0.0**	**0.0**	**0.0**	**0.0**
Prepayments and accrued income	**5.4**	**6.8**	**5.4**	**6.8**
Local authorities	0.8	0.5	0.8	0.5
Non-public sector organisations	4.6	6.3	4.6	6.3
Total	**219.8**	**248.7**	**219.7**	**249.2**

Amounts falling due after more than one year:	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Deposits and advances – staff receivables	**0.6**	**0.6**	**0.6**	**0.6**
Other receivables – Central Government bodies	**0.0**	**0.0**	**0.0**	**0.1**
Total	**0.6**	**0.6**	**0.6**	**0.7**

18. Cash and cash equivalents

	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Balance brought forward	78.5	78.5	77.8	77.4
Net change in cash and cash equivalent balances	(3.5)	0.0	(5.0)	0.4
Balance carried forward	**75.0**	**78.5**	**72.8**	**77.8**
The following balances were held at:				
Commercial banks – cash	70.0	72.5	67.8	71.8
Debt Management Office – short-term investments	5.0	6.0	5.0	6.0
Balance carried forward	**75.0**	**78.5**	**72.8**	**77.8**

19. Trade payables and other liabilities

Amounts falling due within one year:	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Current part of long-term loan payable to MOD	**3.2**	**3.2**	**3.2**	**3.2**
VAT	**6.6**	**(4.7)**	**6.2**	**(4.7)**
Other taxation and social security	**5.3**	**5.3**	**5.2**	**5.3**
Payments received on account	**11.9**	**18.7**	**11.9**	**18.7**
Central Government bodies	8.6	15.3	8.6	15.3
Non-public sector organisations	3.3	3.4	3.3	3.4
Trade payables	**45.8**	**69.4**	**45.8**	**69.2**
Central Government bodies	2.2	2.7	2.2	2.7
Trading funds	0.1	0.1	0.1	0.1
Local authorities	1.8	1.9	1.8	1.9
Non-public sector organisations	41.7	64.7	41.7	64.5
Other payables – Central Government bodies	**5.6**	**4.3**	**5.6**	**4.3**
Pay and expenses – staff payables	**3.8**	**3.7**	**3.8**	**3.7**
Accruals and deferred income	**89.0**	**108.8**	**88.9**	**108.6**
Central Government bodies	3.0	6.1	3.0	6.1
NHS Trusts	0.1	0.1	0.1	0.1
Local authorities	2.5	3.6	2.5	3.6
Non-public sector organisations	81.6	97.6	81.5	97.4
Staff	1.8	1.4	1.8	1.4
Dividend	**12.7**	**11.0**	**12.7**	**11.0**
Total	**183.9**	**219.7**	**183.3**	**219.3**

Amounts falling due after more than one year:	2015 Group £ million	2014 Group £ million	2015 Trading Fund £ million	2014 Trading Fund £ million
Non-current part of long-term loan payable to MOD	**12.9**	**16.1**	**12.9**	**16.1**
Total	**12.9**	**16.1**	**12.9**	**16.1**

With the exception of long-term loans, long-term creditors are held undiscounted.

20. Provisions for liabilities and charges

Group and Trading Fund

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2014	1.1	0.0	0.7	0.1	0.1	2.0
Provided in the year	0.0	0.1	0.0	0.0	0.6	0.7
Provisions not required written-back	0.0	0.0	0.0	(0.1)	0.0	(0.1)
Provisions utilised in the year	0.0	0.0	(0.3)	0.0	(0.5)	(0.8)
Balance at 31 March 2015	**1.1**	**0.1**	**0.4**	**0.0**	**0.2**	**1.8**

Analysis of expected timing of cash flows:	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2015 and 31 March 2016	0.0	0.1	0.2	0.0	0.2	0.5
Between 1 April 2016 and 31 March 2017	0.0	0.0	0.1	0.0	0.0	0.1
Between 1 April 2017 and 31 March 2022	1.1	0.0	0.1	0.0	0.0	1.2
Balance at 31 March 2015	**1.1**	**0.1**	**0.4**	**0.0**	**0.2**	**1.8**

No amounts are expected to be called after 31 March 2022 and therefore no further analysis is necessary for amounts after this date. The provisions have not been discounted. The effect of discounting is not material.

Onerous contracts

A lease is in place for a facility (owned by the Trading Fund) to remain at the Farnborough site. This defers a dilapidation obligation under the Farnborough lease to beyond a year. The current expiry date of the lease is 31 March 2020, and therefore utilisation may not be until beyond this date.

Remediation

As freehold owner of the Portsdown Main site, the Trading Fund has an obligation to clear, remove and safely dispose of hazardous waste. The hazardous waste had been left by a contractor who had use of the site.

i lab (rationalisation programme) provisions

Due to the Trading Fund's withdrawal from the Farnborough and Malvern sites, there have been redundancies for some non-mobile staff. The provision is not expected to be fully utilised until the year ending 31 March 2020.

Helios Project provisions

Due to a phased withdrawal from the Fort Halstead site, there had been in the prior year some voluntary redundancies for non-mobile staff.

Early departure costs

The Trading Fund meets the additional costs of benefits beyond the normal PCSPS benefits in respect of employees who retire early by paying the required amounts annually to the PCSPS over the period between early departure and normal retirement date. The Trading Fund provides for this in full when the early retirement agreement becomes binding. Payment values are established by the Cabinet Office (My Civil Service Pension).

The comparatives for the year ended 31 March 2014 are:

Group and Trading Fund

	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Balance at 1 April 2013	1.2	0.0	1.1	0.0	0.1	2.4
Provided in the year	0.0	0.0	0.0	1.0	0.3	1.3
Provisions utilised in the year	(0.1)	0.0	(0.4)	(0.9)	(0.3)	(1.7)
Balance at 31 March 2014	**1.1**	**0.0**	**0.7**	**0.1**	**0.1**	**2.0**

Analysis of expected timing of cash flows:	Onerous contracts £ million	Remediation £ million	i lab provisions £ million	Helios provisions £ million	Early departure costs £ million	Total £ million
Between 1 April 2014 and 31 March 2015	0.0	0.0	0.3	0.1	0.1	0.5
Between 1 April 2015 and 31 March 2016	0.0	0.0	0.2	0.0	0.0	0.2
Between 1 April 2016 and 31 March 2021	0.0	0.0	0.2	0.0	0.0	0.2
Between 1 April 2021 and 31 March 2026	1.1	0.0	0.0	0.0	0.0	1.1
Balance at 31 March 2014	**1.1**	**0.0**	**0.7**	**0.1**	**0.1**	**2.0**

21. Long-term loans

	2015 Group and Trading Fund £ million	2014 Group and Trading Fund £ million
Balance brought forward	19.3	22.5
Repayment of loan	(3.2)	(3.2)
Balance carried forward	**16.1**	**19.3**

A £21.5 million loan was received from MOD on 11 September 2008 and is repayable by instalments until 31 March 2020. Interest is charged at 4.53 per cent per annum. The interest rate is fixed for the duration of the loan. A further loan of £10.7 million was received from MOD on 15 October 2009, and is repayable by instalments until 31 March 2020. Interest is charged at 2.75 per cent per annum. The interest rate is fixed for the duration of the loan.

	2015 Group and Trading Fund £ million	2014 Group and Trading Fund £ million
Analysis of repayments:		
Within one year	3.2	3.2
After one year but within two years	3.2	3.2
After two years but within five years	9.7	9.7
After five years	0.0	3.2
Total	**16.1**	**19.3**

The carrying amount of the loan, following amortisation using the effective interest rate method, is as follows:

	2015 Group and Trading Fund £ million	2014 Group and Trading Fund £ million
Balance brought forward	19.4	22.7
Repayment of principal	(3.2)	(3.2)
Finance charge	0.0	(0.1)
Balance carried forward	**16.2**	**19.4**

22. Commitments under leases

Operating leases

Commitments under non-cancellable operating leases to pay rentals after 31 March 2015 are analysed as follows:

	2015 Group and Trading Fund £ million	2014 Group and Trading Fund £ million
Property:		
Due within one year	4.1	4.1
Due after one year but within five years	15.4	15.2
Total	**19.5**	**19.3**

The Group leases various properties, including land, under short-term cancellable operating lease agreements. There is only one significant lease – the property at Fort Halstead. To cancel the lease, a notice period of not less than five years is required of the Group. The landlord does not have a right to cancel. No renewal or purchase options exist. There is a rent review every five years, performed on a Market Value basis. The last review was performed for 1 April 2012 and the rent is currently being renegotiated with the landlord. There is no contingent rent or any significant restrictions concerning the use of the property.

23. Capital commitments

	2015 Group and Trading Fund £ million	2014 Group and Trading Fund £ million
Property, plant and equipment:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	14.1	12.6
Capital expenditure that has been authorised but has not been provided for in the accounts	90.0	106.4
Intangible assets:		
Capital expenditure that has been contracted for but has not been provided for in the accounts	1.1	0.8
Capital expenditure that has been authorised but has not been provided for in the accounts	0.6	0.9

The Trading Fund has obtained Ministerial approval for the Helios Project, which will result in migration away from the Fort Halstead site and the construction of replacement facilities at Porton Down. The construction element of the project is in the design phase prior to tendering, and the final approval based on confirmed costs is not expected until autumn 2015. The authorised amount of £95.0 million is split approximately £92.0 million for capital, and £3.0 million revenue and is based on the indicative costs supplied to the then Minister for Defence Equipment, Support and Technology when he was briefed during October 2013. Of the authorised capital of £92.0 million, £2.7 million is reported as property, plant and equipment under construction, and £9.9 million has been contracted for, but has not been provided for in the accounts. The balance of £79.4 million has been authorised but neither contracted for nor provided for in the accounts.

24. Financial instruments

Financial assets and liabilities are recognised where the Group has become a party to contractual terms of a financial instrument.

The Trading Fund and its subsidiary undertaking's principal financial instruments comprise cash, short-term deposits and long-term borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments, such as trade receivables and trade payables, that arise directly from its operations. The Group has no embedded derivatives that require separation from their host contracts and measurement at fair value through profit or loss. It has been the Group's policy throughout the year that no trading in financial instruments should be undertaken.

Categories of financial instruments

Trade and other receivables, and cash and cash equivalents, have been classified as loans and receivables. Trade and other payables have been classified as other financial liabilities. The fair value of these financial assets and financial liabilities approximates carrying value due to the short-term nature of these financial instruments. The loan received from MOD has been classified as other financial liabilities and is held at amortised cost using the effective interest rate method. The carrying value of the loan is shown in Note 21. Equity holdings of the group are classified as available-for-sale investments and are disclosed in Note 13. The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year. The category of financial instrument that has produced finance income received and receivable, and the category of financial instrument that has produced finance charges paid and payable, are disclosed in Notes 8 and 9.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank current account facilities and investment of surplus funds in short-term, interest-bearing accounts. For the Group, liquidity risk primarily relates to managing payment and receipt of trade and other payables, and of trade and other receivables, arising out of normal operations. This is managed through matching of credit terms with suppliers and customers.

The following is an analysis of financial liabilities by remaining contractual maturity:

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Trade payables	45.8	0.0	0.0	0.0	0.0	0.0
Other payables:						
Staff / payroll	3.8	0.0	0.0	0.0	0.0	0.0
Taxation and social security	11.9	0.0	0.0	0.0	0.0	0.0
Payments on account	11.9	0.0	0.0	0.0	0.0	0.0
Other	5.6	0.0	0.0	0.0	0.0	0.0
Accruals and deferred income	89.0	0.0	0.0	0.0	0.0	0.0
Provisions	0.5	0.1	0.1	0.0	1.1	0.0
Loan provided by MOD: Principal	3.2	3.2	3.2	3.2	3.3	0.0
Dividend	12.7	0.0	0.0	0.0	0.0	0.0
Total financial liabilities	**184.4**	**3.3**	**3.3**	**3.2**	**4.4**	**0.0**

The liquidity risks inherent in this are met by close management of the Group's financial assets. Amounts recoverable under contract are invoiced weekly or monthly in accordance with contract terms, and the receipts are invested on short-term deposits designed to mature when liabilities fall due. The following is a maturity analysis of financial assets:

	Matures within 1 year £ million	Matures between 1 and 2 years £ million	Matures between 2 and 3 years £ million	Matures between 3 and 4 years £ million	Matures between 4 and 5 years £ million	Matures after more than 5 years £ million
Work in progress	2.8	0.0	0.0	0.0	0.0	0.0
Trade receivables	37.3	0.0	0.0	0.0	0.0	0.0
Amounts recoverable under contract	171.3	0.0	0.0	0.0	0.0	0.0
Prepayments	5.4	0.0	0.0	0.0	0.0	0.0
Other receivables:						
Staff	0.3	0.1	0.1	0.1	0.1	0.2
Other	5.5	0.0	0.0	0.0	0.0	0.0
Total financial assets	**222.6**	**0.1**	**0.1**	**0.1**	**0.1**	**0.2**

Market risk

Foreign currency risk:

The Group has limited transactional currency exposures. Such exposures arise from the sales or purchases by an operating unit in currencies other than sterling and, for staff who are posted overseas, payment of salaries in the host currency. Foreign currency contracts require approval from the Finance Director. It is the Trading Fund's policy to include a clause that allows for the price of a foreign currency sales contract to be revised if the relevant exchange rate fluctuates by more than 2.5 per cent during the life of the contract. This clause enables the Trading Fund to reserve the right to revise the price but it is not routinely exercised. The Group does not use forward currency contracts to eliminate such exposure to currency losses.

As at 31 March 2015, the Group's exposure to currency exchange movements, denominated in sterling, is:

	US Dollar £'000	Euro £'000
Assets	926.0	9.7
Liabilities	276.9	10.4

No sensitivity analysis has been performed because the exposure to currency exchange movement risk is not material.

Interest rate risk:
There is no interest rate risk in respect of short-term investments. All investments are at a fixed rate.
As at 31 March 2015, the Group's investments at fixed rates are:

Counterparty	Maturity date	Amount invested £ million	Rate %
Lloyds Bank	11 September 2015	5.0	0.814
Debt Management Office	2 April 2015	5.0	0.250

There is no interest rate risk with the two loans repayable to MOD. The interest rates are fixed.

	Date provided	Maturity date	Principal £ million	Rate %
Loan from MOD	11 September 2008	31 March 2020	21.5	4.53
Loan from MOD	15 October 2009	31 March 2020	10.7	2.75

Credit risk:
Exposure to credit risk is low. All work is performed under contract terms. More than 90 per cent of trading is undertaken with the Group's immediate owner, MOD, and more than 95 per cent of trading is undertaken with wider Government. All non-Exchequer parties are credit checked prior to contract agreement and are regularly monitored. The standard term negotiated with both customers and suppliers is a 30-day credit period.

The following disclosure provides details of the Group's trade receivables that are beyond their due date:

0 - 90 days £ million	91 - 180 days £ million	Over 180 days £ million
8.1	4.6	0.7

No provision for bad debt has been made because there are no indications of any improbable recovery.

The maximum exposure to credit risk can be broken down as follows:

	£ million	£ million
Trade receivables		37.3
Amounts recoverable under contract		171.3
Other receivables:		
Other	5.5	
Staff loans, advances and imprests	0.9	
		6.4
Cash and cash equivalents:		
Cash at bank – Lloyds Bank	67.8	
Cash at bank – HSBC Bank	1.3	
Cash at bank – Santander Bank	0.9	
Short-term investments – Debt Management Office	5.0	
		75.0
Maximum exposure to credit risk		**290.0**

The amount quoted above is the technical maximum, quantitative exposure but, within this, £194.5 million relates to MOD. Credit risk with MOD is minimal since it is a central Government department, and is the Group's immediate Owner.

No capital disclosures are necessary. A buffer for risk to creditors does not arise because public sector financing is tax based. No further disclosure is necessary to enable the Group's overall financial position, performance and cash flows to be understood.

25. Public dividend capital

Group and Trading Fund

The FReM interprets public dividend capital as equity.

	2015 £ million	2014 £ million
Balance brought forward	50.4	50.4
Balance carried forward	**50.4**	**50.4**

26. Losses and special payments

As explained in Note 3, a provision for doubtful debts was increased by £0.4 million in respect of a receivable from Ploughshare (in the Trading Fund financial statements). There were no other losses or special payments exceeding £300,000 during the year ended 31 March 2015.

One severence settlement was made with a gross payment of £137,627. The Trading Fund deducted and settled the tax in accordance with Employer's Pension Notice (EPN) 297. The settlement was calculated so that after the claimant finalised his tax position, he would be in receipt of a net payment of £104,800. The settlement was made after the Employment Tribunal found in favour of the claimant, and received HM Treasury approval.

27. Related-party transactions

Dstl is a Trading Fund owned by MOD.

MOD

MOD is regarded as a related party. During the year, the Trading Fund had various material transactions with MOD and all transactions were carried out under contract terms and subject to the normal course of internal and external audit:

	2015 £'000	2014 £'000
Sales	611,692.1	620,618.1
Purchases	19,100.2	20,988.1
Receivables	194,527.7	217,883.1
Payables	23,476.5	30,403.6

Sales include £3,841.3 thousand of other operating income (2014: £3,952.6 thousand). In addition to purchases, an ordinary dividend of £12.7 million, payable to MOD, was agreed (2014: £11.0 million). Interest paid and payable on the loans totalled £0.7 million, measured at amortised cost using the effective interest rate method (2014: £0.8 million). Repayments of the principal during the year totalled £3.2 million. Final repayment is due on 31 March 2020. See Note 21.

Ploughshare Innovations Ltd

Ploughshare is a wholly owned subsidiary undertaking of the Trading Fund. Details are provided in Note 13.
Inter-company trading has been eliminated on consolidation using the purchase method.
During the year, the following trading occurred with Ploughshare, which was carried out under standard contract terms:

	2015 £'000	2014 £'000
Sales and other operating income	419.0	464.7
Purchases and expenses	110.2	93.0
Receivables	30.1	56.5
Payables	0.0	0.0

During the previous year, the Trading Fund made a provision of £5,251.9 thousand for doubtful debts with Ploughshare, which offset the current account, because there was no likelihood of settlement being made in the foreseeable future. During the year, £2,960.0 thousand of the debt owed by Ploughshare to the Trading Fund was exchanged for 2,959,999 £1 ordinary share equity in Ploughshare. The provision for the doubtful debt was reversed to reflect this, resulting in a credit of £2,574.9 thousand (net of VAT) to profit or loss. To maintain a full provision at the year end, it has subsequently been increased by £460.7 thousand to £2,809.1 thousand. The increase resulted in a charge to profit or loss of £419.0 thousand.

Ownership of the Trading Fund's holdings in its available-for-sale investment with Remo Technologies Ltd transferred to Ploughshare during the reporting year ended 31 March 2007. Ownership of the Trading Fund's holdings in its available-for-sale investment with P2i Ltd transferred to Ploughshare during the reporting year ended 31 March 2009. Ownership of the Trading Fund's holdings in its available-for-sale investment with Enigma transferred to Ploughshare during the reporting year ended 31 March 2013.

During the year, Ploughshare sold its entire available-for-sale investment with P2i Ltd. See Note 13 for further details.

Available-for-sale investments and associate

Details of the available-for-sale investments and the associate, Tetricus Ltd, are provided in Note 13. During the year, the following trading occurred with these entities, which was carried out under standard contract terms:

	Sales		Purchases		Receivables		Payables	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Claresys Ltd	33.4	37.0	0.0	0.0	0.0	89.0	0.0	0.0
Enigma Diagnostics Ltd	0.0	8.6	0.0	0.0	0.0	9.4	0.0	0.0
Esroe Ltd	0.0	96.0	0.0	22.1	84.0	96.0	0.0	0.0
P2i Ltd	0.0	0.0	0.0	7.5	0.0	0.0	0.0	0.0
Remo Technologies Ltd	0.0	0.0	0.0	44.1	0.0	0.0	0.0	0.0
Subsea Asset Location Technologies Ltd	0.0	20.7	0.0	0.0	0.0	0.0	0.0	0.0
Tetricus Ltd	134.4	165.9	0.0	0.0	0.0	0.0	0.0	0.0

J Kirby is on the Board of Directors of Ploughshare, and is a director in common with Subsea Asset Location Technologies Ltd. R Drummond is on the Board of Directors of Ploughshare, and is a director in common with Subsea Asset Location Technologies Ltd, and RMD 100 Ltd. During the year Ploughshare made sales to RMD 100 Ltd of £7.8 thousand (2014: £20.7 thousand), and no purchases (2014: £27.0 thousand). During the year, P Hotten was on the Board of Directors of Ploughshare, and was a director in common with Subsea Asset Location Technologies Ltd. S Callister is on the Board of Directors of Ploughshare, and is a director in common with Claresys Ltd and Esroe Ltd.

Other public sector bodies

Other public sector bodies are regarded as related parties by virtue of being under the same common control. During the year, the Group had various material transactions with certain public sector bodies. All transactions are carried out on standard contract terms and are subject to the normal course of internal and external audit.

	Sales		Purchases		Receivables		Payables	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
UK Space Agency	291.7	296.7	0.0	0.0	0.0	67.8	0.0	0.0
Cabinet Office (excluding PCSPS)	25.2	47.1	65.2	134.7	0.0	54.8	7.8	141.2
Centre for Applied Science and Technology	641.0	0.0	0.0	78.6	109.2	0.0	0.0	20.4
Centre for Protection of National Infrastructure	46.9	119.0	14.8	0.0	37.7	23.8	0.0	0.0
Defence Support Group	73.1	83.7	34.9	249.3	32.8	18.3	14.6	40.1
Department for Energy and Climate Change	330.8	105.4	0.0	0.0	178.8	17.0	0.0	0.0
Department for the Environment, Food and Rural Affairs	516.0	148.9	107.0	246.6	146.2	30.4	40.9	66.9
Department for Transport	4,308.5	3,163.5	54.9	0.0	1,751.0	690.3	26.7	4.5
Drinking Water Inspectorate	18.2	7.1	0.0	0.0	0.0	0.0	0.0	18.2
Economic and Social Research Council	0.0	0.0	214.5	1,070.0	0.0	0.0	6.0	6.5
Engineering and Physical Sciences Research Council	0.0	0.0	489.3	1,432.9	0.0	0.0	141.2	643.2
Foreign and Commonwealth Office	64.9	111.9	23.1	13.9	9.9	35.7	8.5	1.1
Government Communications Bureau	8,679.6	8,097.3	1,885.4	845.7	4,012.3	2,730.3	2,210.8	679.9
Government Communications Centre	4,195.9	3,091.5	16.8	422.2	1,573.4	1,319.5	195.7	529.5
Health and Safety Executive	0.0	0.0	0.3	5.4	0.0	0.0	0.0	0.0
Health and Safety Laboratory	0.0	0.0	2.8	40.1	0.0	0.0	0.5	0.0
Public Health England	852.3	789.3	1,490.1	1,439.1	264.5	235.6	1,086.0	1,191.0
Home Office	11,080.8	10,092.3	87.9	106.5	2,759.4	3,876.1	204.9	290.2
Meteorological Office	1.6	6.1	1,171.3	1,416.3	0.0	1.1	96.3	149.4
Northern Ireland Department of Justice	0.0	273.0	0.0	0.0	0.0	0.0	0.0	87.1
Science and Technology Facilities Council	0.0	0.0	171.7	245.5	0.0	0.0	20.8	121.2
Technology Strategy Board	1,842.6	2,150.8	2,017.7	612.5	491.3	455.3	26.6	494.5
Cabinet Office – PCSPS	0.0	0.0	35,384.8	33,965.2	0.0	0.0	4,308.6	4,064.1
HM Revenue and Customs:								
Employer's and Employees' Income Tax and National Insurance	0.0	0.0	44,767.4	45,254.9	0.0	0.0	5,515.9	6,180.6
VAT	0.0	0.0	36,820.8	42,078.2	0.0	4,668.9	6,192.5	0.0

No Minister, board member, key manager or other related parties has undertaken any material transactions with the Group during the year. Any compensation paid to senior management is disclosed in the Remuneration Report.

28. Contingent liabilities

There were no contingent liabilities at 31 March 2015 or 31 March 2014.

29. Events after the reporting period

No events have occurred subsequent to the financial year end that require disclosure in these financial statements.

30. Operating segments

Group and Trading Fund

All of the Group's business reporting segments are disclosed to enable users of these financial statements to evaluate the nature and financial effects of the Group's business activities. The Group's corporate support functions have been aggregated. All operating segments derive their revenues from the provision of specialist and technical services. The Group derives more than 90 per cent of its revenues from MOD, and more than 95 per cent of its revenues from wider Government. More detailed disclosures can be found in Note 27, related-party transactions.

More than 95 per cent of revenue is derived from UK sources. The Board does not review the business on a geographical basis. A geographical analysis would not be necessary to aid users' understanding of these financial statements.

Operating segment analysis for the year ended 31 March 2015:

Operating segment	Revenue (internal and external) £ million	Depreciation £ million	Amortisation £ million	Impairments through profit or loss £ million	Impairments through Other Comprehensive Income £ million	Finance income £ million	Finance expense £ million	Retained profit / (loss) for the year £ million	Capital expenditure £ million	Total assets £ million	Total liabilities £ million
Air and Weapons Systems	113.2	0.0	0.0	0.0	0.0	0.0	0.0	5.6	0.0	37.9	24.1
Biomedical Sciences	45.1	0.2	0.0	0.0	0.0	0.0	0.0	1.1	0.4	12.0	5.2
Detection	61.8	0.3	0.0	0.0	0.0	0.0	0.0	2.8	0.1	22.4	10.3
Environmental Sciences	23.9	0.1	0.0	0.0	0.0	0.0	0.0	(2.8)	0.2	4.5	1.9
Information Management	57.0	0.1	0.0	0.0	0.0	0.0	0.0	3.4	0.2	16.2	9.3
Joint Systems	8.8	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	1.6	0.6
Land Battlespace Systems	52.5	0.0	0.0	0.0	0.0	0.0	0.0	2.8	0.5	12.6	6.1
Naval Systems	58.0	0.1	0.0	0.0	0.0	0.0	0.0	2.3	0.0	19.8	14.6
Physical Sciences	54.6	0.2	0.0	0.0	0.0	0.0	0.0	3.4	0.0	18.4	9.3
Policy and Capability Studies	41.6	0.0	0.0	0.0	0.0	0.0	0.0	5.4	0.0	7.7	5.4
Programme Office	27.6	0.0	0.0	0.0	0.0	0.0	0.0	(4.8)	0.0	7.5	0.7
Security Sciences	94.0	0.8	0.0	0.0	0.0	0.0	0.0	5.2	2.1	28.9	13.2
Sensors and Countermeasures	88.6	0.4	0.0	0.0	0.0	0.0	0.0	5.0	0.2	38.7	27.2
Corporate	8.6	12.7	1.5	2.0	2.5	0.4	0.7	(10.6)	21.7	366.0	70.1
Ploughshare Innovations Ltd	0.7	0.0	0.0	0.0	0.0	0.1	0.0	0.3	0.0	4.7	3.1
Internal trading group consolidation adjustments	(83.1)	0.0	0.0	0.0	0.0	0.0	0.0	(2.4)	0.0	(3.8)	(2.5)
Total as per financial statements	**652.9**	**14.9**	**1.5**	**2.0**	**2.5**	**0.5**	**0.7**	**17.4**	**25.4**	**595.1**	**198.6**

Operating segment analysis for the year ended 31 March 2014:

Operating segment	Revenue (internal and external) £ million	Depreciation £ million	Amortisation £ million	Impairments through profit or loss £ million	Impairments through Other Comprehensive Income £ million	Finance income £ million	Finance expense £ million	Retained profit / (loss) for the year £ million	Capital expenditure £ million	Restated Total assets £ million	Total liabilities £ million
Air and Weapons Systems	116.4	0.0	0.0	0.0	0.0	0.0	0.0	7.2	0.0	41.4	34.8
Biomedical Sciences	45.6	0.2	0.0	0.0	0.0	0.0	0.0	3.3	0.3	10.3	6.5
Detection	59.1	0.3	0.0	0.0	0.0	0.0	0.0	4.5	0.7	25.3	12.7
Environmental Sciences	22.2	0.1	0.0	0.0	0.0	0.0	0.0	(3.5)	0.1	5.8	3.0
Information Management	63.2	0.1	0.0	0.0	0.0	0.0	0.0	4.1	0.2	21.2	16.2
Joint Systems	11.4	0.0	0.0	0.0	0.0	0.0	0.0	0.7	0.0	3.1	1.4
Land Battlespace Systems	44.9	0.0	0.0	0.0	0.0	0.0	0.0	1.7	0.0	12.3	9.7
Naval Systems	48.5	0.2	0.0	0.0	0.0	0.0	0.0	2.3	0.0	15.8	11.9
Physical Sciences	55.6	0.2	0.0	0.0	0.0	0.0	0.0	2.8	0.4	23.2	14.7
Policy and Capability Studies	46.6	0.0	0.0	0.0	0.0	0.0	0.0	5.2	0.0	9.8	6.3
Programme Office	33.3	0.0	0.0	0.0	0.0	0.0	0.0	(4.2)	0.0	7.6	1.4
Security Sciences	98.9	0.8	0.0	0.0	0.0	0.0	0.0	5.9	0.6	34.0	21.4
Sensors and Countermeasures	84.1	0.3	0.0	0.0	0.0	0.0	0.0	5.6	0.7	36.3	28.5
Corporate	11.4	11.5	1.0	2.0	3.7	0.4	0.8	(27.0)	34.1	350.0	68.9
Ploughshare Innovations Ltd	0.7	0.0	0.0	0.0	0.4	0.0	0.0	(1.0)	0.0	3.5	5.7
Internal trading group consolidation adjustments	(81.0)	0.0	0.0	0.0	0.0	0.0	0.0	7.3	0.0	(0.9)	(5.3)
Total as per financial statements	**660.9**	**13.7**	**1.0**	**2.0**	**4.1**	**0.4**	**0.8**	**14.9**	**37.1**	**598.7**	**237.8**

The comparatives for total assets have been restated for consistency, using the same asset allocation method as the current year.

A summary of the services provided by the business operating segments are as follows:

Air and Weapons Systems
Provides the focus for systems-level advice, underpinned by comprehensive analysis and detailed technical expertise in support of MOD decision-making on air and weapon systems.

Biomedical Sciences
Provides integrated research, development and advice on biological effects of insults on the human and how these effects can be mitigated through the application of cutting-edge science and technology.

Detection
Conducts research to understand the hazards posed by the misuse of chemical and biological materials, and protection against these hazards. Provides expertise in explosives detection.

Environmental Sciences
Provides MOD with a science and technology base to permit it to manage, monitor and control chemical, radiation and equipment hazards that could damage the environment or the people that work on it.

Information Management
Provides the focus for UK information superiority, planning and decision-making with expertise in information systems and security, information infrastructure, and software systems engineering.

Joint Systems
Leads multi-disciplinary teams for the provision of systems advice issues that cross environmental boundaries.

Land Battlespace Systems
Provides advice on land and C4ISR systems, focused on lethality, protection, mobility, survivability, sustainability, reliability, network enabled capability, human performance, tactics, logistics, training, special forces, and missile technology.

Naval Systems
Provides analysis and systems advice to MOD to enable the effective procurement and operation of maritime capability.

Physical Sciences
Provides protection science, dispersion physics, material science and armour physics expertise.

Policy and Capability Studies
Leads on integration of impartial analysis and sensitive decision support to enhance UK defence and security.

Programme Office
Responsible for leading the Chief Scientific Adviser's MOD S&T Programme – designing, formulating and commissioning programmes with industry, academia and other research organisations.

Security Sciences
Provides support to counter-terrorism and special forces including electro-optic surveillance, explosives engineering, and information operations.

Sensors and Countermeasures
Researches and evaluates a range of sensors for air, land, and sea military platforms.

Corporate
Main functions and activities include:
- corporate governance, and centralised functions such as finance and treasury management, human resources management, and commercial contracting management.
- programme office whose role is to co-ordinate and support project management of customer programmes.
- estate management.
- business information systems.
- knowledge services, providing access to Dstl's internal knowledge base, MOD-funded reports and the wider scientific and technical literature, together with a range of information and analysis services.

Ploughshare Innovations Ltd
It is Government policy to transfer technical knowledge, wherever possible, to the economy for exploitation of its full commercial and social potential. Ploughshare is a wholly owned subsidiary, incorporated on 6 April 2005 as a vehicle for the transfer and management of the Trading Fund's Intellectual Property and joint venture initiatives. The Ploughshare mission is to evaluate Dstl technologies for commercial potential and to maximise market adoption of the technologies to support the wider UK growth agenda.

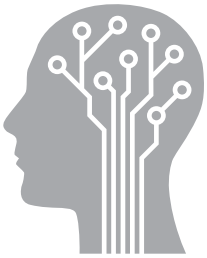
Dstl's nine priority S&T capabilities

Analysis

Platform Systems

Weapons

C4ISR
Command, Control, Communication, Computers, Intelligence, Surveillance and Reconnaissance

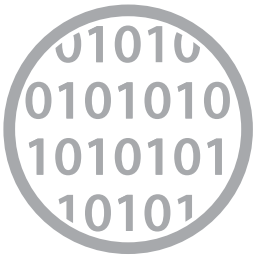


Human Capability

Counter-Terrorism (CT) and Security

CBR
Chemical, Biological and Radiological

Integrated Survivability



Cyber

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