

dara

Annual Report and Accounts



2004/05

DARA Annual Report and Accounts 2004/05



Presented to Parliament pursuant to section 4 (6) of the Government Trading
Funds Act 1973 as amended by the Government Trading Act 1990.
Ordered by the House of Commons to be printed 14 July 2005.

HC 304
London: The Stationery Office
£16.25

Contents

Annual Report

- 4 Statement by the Chief Executive
- 8 The Business; its Mission, its Vision and Strategy
- 10 DARA's Performance against Key Targets
- 12 Financial Review
- 16 Operating Review
- 30 DARA Statement on Internal Control



Accounts

- 34 Remuneration Committee Report
- 36 Statement of Accounting Officer's Responsibilities
- 38 The Certificate and Report of the Comptroller & Auditor General to the Houses of Parliament
- 40 Foreword to the Accounts
- 42 Profit & Loss Account
- 43 Balance Sheet
- 44 Cash Flow Statement
- 45 Statement of Total Recognised Gains & Losses
- 45 Reconciliation of Movements in Government Funds
- 46 Notes to the Accounts



Statement by the Chief Executive

2004/05 has undoubtedly been a most challenging and difficult time for DARA. The year was dominated by work on Recommendation 40 of the End-to-End Review, which has absorbed an enormous amount of management time and effort.



Archie Hughes
Chief Executive

At the end of the last financial year we received the disappointing news that the Armed Forces Minister agreed to the immediate transfer of work on the Harrier fleet from DARA at St Athan to the RAF's Main Operating Base (MOB) at Cottesmore. The emerging

conclusions on the other fixed and rotary wing platforms identified in Recommendation 40 were, at that time, still to be decided. It was only after many top-level meetings and debates amongst the key stakeholders throughout the summer months that the Minister was minded to announce in September his preferred option for the way ahead for Air Depth support.

For St Athan, the news could not have been more devastating. The decision to transfer work on DARA's most important air platform,

the Tornado GR4, to RAF Marham was a major blow with far reaching consequences. The decision to maintain the status quo on the Tornado F3 and Jaguar platforms could not offset the loss of GR4, particularly as the Secretary of State for Defence announced in July that the former would lose a squadron and the latter's out of service date would be brought forward. DARA did, however, secure the 2nd and 3rd line work on the VC10 platform and would continue to carry out depth support on the Hawk Training Fleet.

I must, at this point, pay tribute to DARA's Harrier and Tornado teams who continued to show great professionalism and dignity whilst handling the transfer of work to their military counterparts. Having embraced, in recent years, major cultural changes in their ways of working and breaking new ground in team and individual empowerment, it is a testament to their commitment that they continue to deliver a service of such high standards. It was an emotional moment indeed for many employees when, at the beginning of 2005, the final Harrier left St Athan.

The outcome for DARA at Fleetlands was a reversal of fortune for the Agency, with work transferring from the military bases on the

Chinook, Lynx and Sea King rotary platforms. This positive outcome, however, presents its own unique challenges. A DARA Programme Director and team were appointed and immediately engaged with the relevant Integrated Project Teams (IPTs) to plan for the smooth transition and delivery of the significant cost savings that were identified in locating these major platforms on a single DARA site.

Inevitably, the impact to employees of the End-to-End announcement means further rationalisation and DARA will lose up to a further 500 employees on top of the 550 redundancies announced in March 2004. It is expected that the latest losses will occur during the latter part of 2005/06, with the majority coming, once again, from the St Athan workforce. With such significant changes being made in DARA's future sales forecasts, it is clear that the corporate structure will require further refining and review to reflect the changing working environment.

Despite Recommendation 40 only considering 'on aircraft' work, and there being no immediate or direct consequences for either DARA's Sealand or Almondbank operations, it would be naïve to assume that other DARA businesses will remain immune in the longer term. It is clear that changes in the air logistics support arena will continue to evolve, aimed at delivering the best outcome for defence in terms of operational effectiveness and value

for money.

On a more positive note, 2004/05 has brought many highlights for the Agency, which, for very obvious reasons, have been overshadowed by End-to-End. In July, DARA's Electronics business at Sealand secured two major contracts totalling £14m, while for DARA Components at Almondbank Christmas was one of celebration with the announcement of a

nine year £9m contract with Rolls Royce Deutschland. Earlier in the year Almondbank was the first site anywhere within the Ministry of Defence (MOD) to achieve Class 'A' accreditation from the Oliver Wight organisation.

The move into DARA's new Superhangar at St Athan in early 2005 was a significant milestone for everyone in DARA's Fixed Wing business.

Finally, in March DARA's Electronics business secured its single largest contract win from the Defence Logistics Organisation (DLO) for the service and repair of a range of avionics equipment. The contract spans a three-year period with an opportunity to extend by a further four years and is valued at £43m.

The move into DARA's new 'Superhangar' at St Athan in early 2005 was a significant milestone for everyone in DARA's Fixed Wing business. For the first time almost all the employees at St Athan are now housed under the one roof. The new facility is undoubtedly an impressive one and has made a major impression on those who visit for the first time.

The financial year ended with DARA once again achieving all the Key Targets, whilst recording a healthy profit due, in part, to a dramatic reduction in the overhead costs and

prudent financial management.

In announcing his decision on the End-to-End Review, the Minister also highlighted to MPs and Trades Unions that a Strategic Review,

undertaken to determine DARA's future direction, concluded that there was no longer a strategic imperative for DARA to remain an integral part of the MOD. In February an independent team of consultants from Morgan Stanley was appointed by MOD to look at what potential market interest there might be in acquiring all or part of the five DARA businesses. This 'Test the Market' (TTM) exercise, at the time of writing, is still to report back its conclusions. However, the Minister is anxious to reach a decision on DARA's future as soon as possible as he is aware of the anxiety and concern the continued uncertainty over DARA's future has on the employees and the wider customer, partner and competitor communities.

The most immediate challenge for DARA is the reducing workload on the diminishing fixed wing legacy platforms, which remain at St Athan. Having assessed the civil aircraft market, we found that there is very little opportunity for DARA to capture new non-military work in a market dominated by organisations with much lower overheads and costs. The strategic landscape, particularly in the areas of DARA's Fixed Wing and Engines businesses, is the most difficult to assimilate, compared to the opportunities that are

If 2004/05 was predicted to be a challenging one, then 2005/06 will, most certainly, be a defining year for DARA.

emerging for DARA's other Business Units.

If 2004/05 was predicted to be a challenging one, then 2005/06 will, most certainly, be a defining year for DARA. It will finally

determine what will be the future direction of the Agency and the role it has to play in support of the UK's Armed Forces. We are assured that the final decision will be an impartial one based on what offers best value for defence.

My final remarks are reserved for all DARA's employees who have, time and again, remained a dedicated and thoroughly professional team of whom I am extremely proud. They continue to provide a service that is worldclass, often under extreme pressure and against tight deadlines. Although the partnership with our Trades Union colleagues continues to be tested, it has not been found wanting. We will continue to work towards a more secure future but recognise that no easy solutions exist to a very difficult situation.



Archie Hughes

Chief Executive

30 June 2005

The Executive Board of Directors



From left to right:
John Reilly *Chief Operating Officer*
Derek Owen *Human Resources Director*
Alan Lewis *Commercial Director*
Andy Akerman *Finance Director*
Archie Hughes *Chief Executive*

The Business; its Mission, its Vision and Strategy

Business:

The Defence Aviation Repair Agency (DARA) is a Government owned facility for the repair, overhaul and maintenance of military aircraft, systems and components including engines and avionics, benefiting from more than 60 years of experience in direct support to the UK Armed Forces.

Mission:

To deliver outstanding repair support to all our customers.

Vision:

To be responsive, flexible, customer focused and highly competitive in the provision of deep aviation repair and supply in logistics to the UK Armed Forces and other customers.

Strategy:

The major change in strategy in 2004/05 was to focus the business far more towards becoming a preferred subcontractor for aviation maintenance, repair and overhaul, incorporating transition to Business Units, closer relationships with industry and a major drive to improve customer satisfaction.

The key strategic goals for 2004/05 were:

- To achieve all key targets and to deliver the Business Plan
- To successfully transform to Business Units
- To deliver Red Dragon and its benefits
- To improve customer satisfaction, by following through results of the Customer Review Programme
- To secure long-term contractual commitments to a future order book
- To shape the resources in the business in line with the future order book



DARA's Performance against Key Targets

DARA's Key Targets (KTs) for 2004/05 were agreed with the Minister of State for the Armed Forces, and are designed to provide clear indicators of performance in the areas critical to DARA's success. These KT's, along with other performance measures based on our Critical Success Factors, form the basis of a DARA wide performance management system linking corporate strategy with business and individual performance plans.

Performance Against Key Targets 2004/05:

Key Target 1

Quality

Achieve fewer than 15 attributable major Customer Concerns annually, on average, financial year 2004/05 – financial year 2006/07.

Achieved

with only 2 attributable major Customer Concerns in 2004/05.

Key Target 2

Business Performance and Efficiency

Achieve an annual Return on Capital Employed of at least 3.5%.

Achieved

with a ROCE of 6.7%.

Key Target 3

Business Sustainability

Achieve a closing Order Book of at least £200m at the end of financial year 2004/05, which includes at least £100m to be deliverable in the following year.

Achieved

with a Closing Order Book of £251.57m, of which £104.8m is to be delivered in 2005/06.

Key Target 4

Wider Markets

Present a business case to the Ministerial Advisory Board (MAB) for DARA's potential in the Civil aerospace market, by end July 2004. Then, by the end of financial year 2004/05, to present a long-term business plan for significant growth in the proportion of revenue from non-MOD Customers.

Achieved

Key Target 5

Cost Reduction

To reduce total DARA costs by at least 5% in real terms by the end of 2004/05.

Achieved

with a cost reduction of 11.8%.

Future Key Targets

The key targets agreed for DARA for 2005/06 are:

Key Target 1

Quality

Achieve less than 15 attributable major Customer Concerns annually, on average during the financial years 2004/05 to 2006/07.

Key Target 2

Business Performance and Efficiency

Achieve an annual Return on Capital Employed of at least 3.5%.

Key Target 3

Business Sustainability

Achieve a closing Order Book of at least £180m at the end of financial year 2005/06, which includes at least £80m to be deliverable in the following year.

Key Target 4

Efficiency

Improve overall efficiency by at least 8%.



Financial Review

DARA has successfully completed its fourth year as a Trading Fund with another strong financial performance. Profit improved for the third successive year and the Return on Capital Employed (RoCE) Key Target was comfortably achieved with an in year value of 6.7% (2003/04: 5.7%) against a target of 3.5%. The key to this out-performance lay in the cost reduction programme which proved to be extremely effective. Total costs were reduced by 11.8% in real terms compared with the previous year, which led to the achievement, by a considerable margin, of Key Target 5 – Cost Reduction.

Trading Results

Although lower than in prior years, especially in the Fixed Wing and Components businesses, demand and output across the business was very much in line with expectations. Fixed Wing suffered from the withdrawal of the Harrier work and Components from a drop in demand for helicopter transmissions.

All areas of the business showed some improvements in their cost base but this was particularly marked in the Fixed Wing and Corporate areas. In Fixed Wing, the manpower reductions announced in early 2004 were executed progressively during the year and were only partially offset by the higher accommodation costs incurred when we took control of the Red Dragon facility in December 2004. In Corporate, we continued to manage down the staff numbers and we also secured a significant reduction in our IT support costs. Overall we reduced the cost base by some £19m in 2004/05. It may prove difficult to repeat this in 2005/06 as demand looks likely to stabilise in the short term, employers' pension contributions are set to increase significantly, and the full costs of ownership of the new Red Dragon facility will be felt for the first time.

The expectation of a serious decline in activity in our Engines business led us to re-appraise

the value of our fixed assets. This, together with some other much smaller adjustments in the rest of the business, resulted in an impairment charge of some £5.4m; which was broadly comparable with the charge for impairment in 2003/04.

As in prior years, the MOD has continued to meet DARA's redundancy costs and has confirmed that it will continue to do so. It has also confirmed that it will meet any liability which might arise in respect of the Red Dragon facility as a consequence of the likely reduction in the Fixed Wing workload. Accordingly, no provision has been made for these future liabilities in these Accounts.

Cash Flow and Funding

Current liquidity remains very strong with a net cash position of £71.1m (2003/04: £77.2m), showing a decrease of £6.1m in year (2003/04: increase £58.1m). Once again operational cashflows were very strong, but this year they were fully absorbed by capital expenditure, primarily associated with the Red Dragon facility, and the loan repayments, including the early repayment of the balance, £16.8m, of one of the medium term loans.

Cash is principally held in Sterling (£70.026m)



but also in US Dollars (\$1.454m) and Euros (€0.495m). All cash investment activity is conducted using a combination of Lloyds TSB money market calls and the HM Treasury Debt Management Account Deposit Facility. Currency risks are managed through a combination of natural hedges and forward contracts. There is one contract arrangement for the sale of US\$ with an outstanding balance of US\$6.1m through to 2008. The capital structure consists of Public

Dividend Capital (PDC), which remained unchanged at £42.3m, and loan capital of £50.2m (2003/04: £71.8m). The debt is structured through three loans held with the MOD: £33.840m at 4.875%, maturing over 16 years, £1.950m at 5%, maturing over 6 years and £14.400m at 4.2%, maturing over 6 years. All borrowings are at fixed rates of interest, thus risks are constrained to those associated with the deposit income.

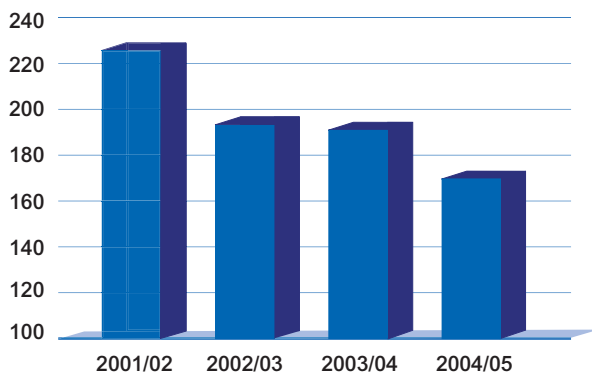
The Balance Sheet continues to be characterised by the high levels of cash which are, in part, financed by the short term creditors. Nevertheless, cash resources are clearly sufficient for the business's needs and, accordingly, a dividend of £2m has been declared and was paid in April 2005.

Trading History

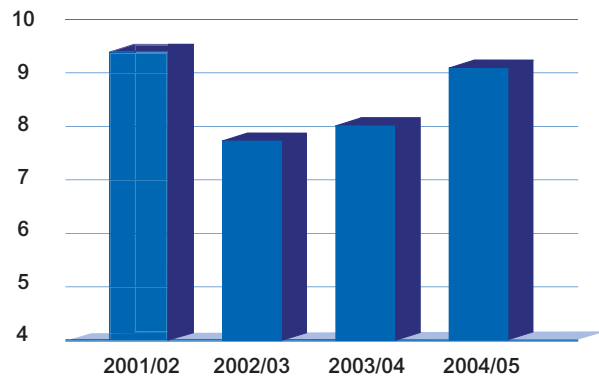
In many ways 2004/05 saw a continuation of the patterns established in previous years, as is illustrated by the graphs below.

Turnover, costs and headcount all fell by 25% over the period. It is likely that these trends will continue in the medium term, albeit the rate at which the business is shrinking may not be quite so pronounced during 2005.

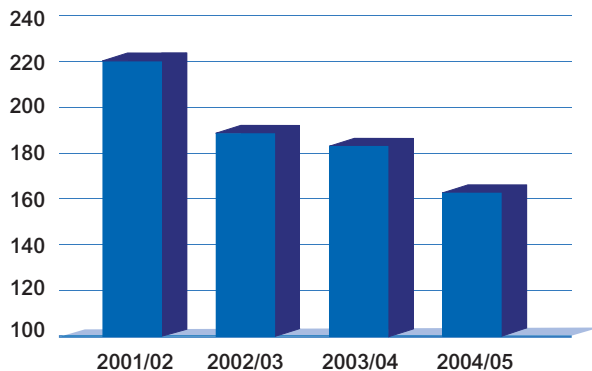
Turnover £m



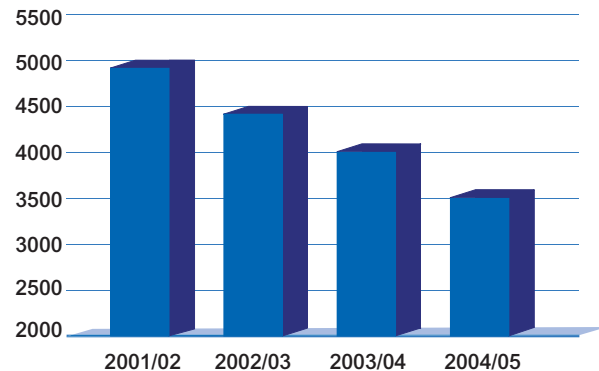
Profit Before Interest £m



Cost Base £m



Headcount





Operating Review

Ministry of Defence - Air Depth Support (End-to-End) Review

'The wider investment appraisal and subsequent affordability analysis has demonstrated that concentrating support of the Tornado GR4 aircraft forward at the Main Operating Base at RAF Marham would provide best value for money compared with the alternative of concentrating backward on the DARA site at St. Athan... Conversely, the work has demonstrated that it would not be cost-effective to concentrate the Tornado F3 aircraft either forward or back, given that it will soon be replaced by Typhoon. The work has also shown that it would provide better value for money to concentrate depth support for Lynx, Chinook and Sea King back to DARA Fleetlands.'

(Excerpt from the Armed Forces Minister's Written Statement to the House of Commons on 16 September 2004.)

The Ministry of Defence undertook the End-to-End Review in 2003, looking at the logistics processes from Front Line back to industry. The Review concluded that there was significant

scope for improvements across all areas of support to military air systems, both in MOD and industry. The Review also recommended that on-aircraft depth support, such as deep repair, scheduled maintenance and aircraft modification, could best be rationalised by concentrating all work at Main Operating Bases (MOBs). It was recommended that this conclusion be tested in an Investment Appraisal (IA).

The IA identified three broad options – to concentrate depth support on certain air platforms forward to MOBs, concentrate the same platforms back to DARA and, where appropriate, industry or a hybrid solution concentrating some platforms back and others forward. The Armed Forces Minister had already announced his decision in March 2004 to transfer forward the work on Harrier from DARA at St Athan to RAF Cottesmore in order not to prejudice the in-service date for the upgrade of the Harrier GR9.

The wider IA and subsequent Affordability Analysis showed that an enhanced hybrid solution offered the best overall value for money. In essence, this meant that DARA's Fixed Wing business at St Athan lost the Tornado GR4 work to RAF Marham, who would be working closely with the manufacturer, BAE

Systems, on future upgrade and maintenance programmes for this platform. Given that there would now be fewer Tornado F3s, due to the loss of a Squadron, and the imminent arrival of Typhoon, it was decided to maintain the status quo until the aircraft reached its out of service date. The same decision applied to the Jaguar fleet, which would come out of service earlier than originally anticipated. No changes would be made to the Hawk Training Fleet, which will continue to be serviced at St Athan, and the IA finally concluded that depth support for the VC10 should concentrate back to DARA.

Concentrating work on the Chinook, Lynx and Sea King rotary platforms to DARA's Fleetlands site in Hampshire was considered to offer best value for money over the alternative of rolling work forward to the MOBs. This decision, whilst welcome for DARA's rotary business, presents its own unique challenges. It ended many months of uncertainty and speculation over the long-term future of the Gosport site, which has almost 50 years experience supporting the Navy and RAF fleets of helicopters.

The Fleetlands workforce is now committed to an ambitious plan to further reduce costs whilst significantly increasing output.

The decision in favour of Fleetlands has meant that there will now be a significant amount of additional work undertaken within a very short timescale. The increased volumes of work will be unlikely to create additional jobs although there will be a number of service personnel

transferring with the new work. The Fleetlands workforce is now committed to an ambitious plan to further reduce costs whilst significantly increasing output without any significant increase in resources. This will ensure that DARA is able to deliver

the savings and cost benefits underpinning the Minister's decision and provide even greater value for money for defence and the taxpayer as a whole.

Fleetlands, as with all DARA's sites, has embraced change and adopted innovative new ways of working but there is now even more pressure to explore novel and pioneering solutions that will fully exploit, to maximum effect, the infrastructure of the site and the enormous capabilities of the workforce. An implementation team and outline programme were quickly established, fully and ably

supported by the customer. New processes were mapped out to help accommodate the increased workload. The goal for the Lynx team is to reduce the number of aircraft in deep repair at any one time from 42 to 27, and produce a Lynx out of the major repair line every 14 days. This will be achieved through an intensive application of 'lean' principles, which means the removal of unnecessary and wasteful activities that add no value to the process.

'Rotary wing transformation will have an impact on every facet of helicopter support from end-to-end and also on the logistics and maintenance personnel in DARA, DLO and across the front-line.'

**Commodore Ian Tibbit, RN.
DLO Cluster Leader.**

Three 'flow' lines will deliver depth maintenance for 130 Lynx each year by applying the principles of assembly-line production. The Lynx facility will be set out to accommodate the aircraft movements from phase to phase ('flow') at pre-defined intervals. This ensures that each phase of work is conducted to a set schedule. The first Lynx enters the new 'flow' line in April 2005, followed by Sea King and Chinook later in the year, but all will be using the same new working practices and processes.

'Concentrating support for rotary aircraft at DARA Fleetlands offers the opportunity to exploit fully the economies of scale that may be achieved by collocating these platforms at a single centre.'

Rt Hon Adam Ingram, Armed Forces Minister.

The effect on the DARA employee numbers this year has been significant, with the St Athan workforce bearing much of the consequences of the End-to-End decision. The announcement of 550 redundancies in March 2004, followed by a further announcement in September that there will be another 500 losses during 2005/06, will see numbers fall at St Athan to around 800. Employment levels at DARA's other sites are expected to remain broadly static, in line with future projected workloads.

The conclusions and final End-to-End decisions mean there is now less uncertainty over DARA's future. However, what emerged was a new concern, as it became increasingly clear that MOD considered there was now no longer a strategic need to retain DARA within MOD. Therefore, at the end of 2004, the MOD commissioned a Strategic Review of DARA to help determine a long-term solution that met the changing needs of Defence and resolved issues facing MOD as DARA's owner and principal customer. Part of the Review process involved the appointment of consultants, Morgan Stanley, to advise on the potential market interest within industry to acquire DARA, either in whole or part. This testing of market interest will report back to officials in early summer 2005.

Despite emotive media speculation about DARA's future, MOD is clear that testing market interest does not in any way imply that sale is a preferred option. All realistic options for DARA's future will be judged impartially against a range of viable alternative solutions but it is clear that the final criteria for any decision will be based on quality of support to the Front Line and overall best value for money.

Project Red Dragon – The Future for DARA Fixed Wing

'This world-class facility is a hugely important asset for the aerospace sector in Wales, and a statement of intent for the development of an aerospace centre of excellence at the St Athan site.'

Rt Hon Rhodri Morgan, First Minister for Wales opening DARA's new superhangar at St Athan.

In December 2004, less than two years since construction began, the new £80m aircraft repair facility at St Athan was completed. The workforce began the migration into the new building in January and by March the majority of employees had successfully moved in. The facility is one of the best equipped in Europe and has impressed everyone who has visited St Athan. The challenge facing DARA and the MOD is how to fully exploit the benefits of consolidating DARA's interests at St Athan into the new facility and maximising the return on the investment. In the light of the End-to-End decision and the clear indications that work on the remaining legacy platforms at St Athan was finite, DARA has some tough decisions to make over the long-term future of Fixed Wing work at the site.

The first Harrier to be serviced at St Athan arrived in June 1981, and since that time over 540 aircraft have undergone a variety of upgrades, services and repairs. But

The task of bringing in one of the largest single construction projects in Wales on time and within budget was a major challenge, which the Project Team successfully delivered.

on 5 January 2005 the final Harrier left St Athan to return to RAF Cottesmore, the new centre for deep level maintenance, repair and upgrade for all the Harrier fleet. Significant praise has been directed towards the teams who have, over many years, provided a dedicated, responsive service during the testing times of major world conflicts and changing defence priorities. A poignant postscript to the story of St Athan's history with the Harrier is the homage paid by the Harrier Integrated Project Team (IPT), congratulating all the DARA employees who have worked on the Harrier fleets over the years for an outstanding job well done.

'The support from DARA and its employees has always remained dedicated, focused and, above all, flexible. There is no doubt the DLO and paying public received a great product for their money.'

(Excerpt from a valedictory letter from the Harrier IPT following the departure of the final Harrier from DARA St Athan in January 2005.)

Moving work from the MOB to DARA at St Athan on the VC10 fleet was welcome news for those working on this major air platform. Working with the DLO and BAE Systems, DARA shared in the pleasure of being recognised with an award by Lord Bach, Defence Procurement Minister, for the innovative joint approach on the VC10

support programme called 'Javelin Red'. Negotiations are now well underway on the next phase, 'Javelin Amber', which is set to see more work transfer to DARA's Fixed Wing business.

Retaining work on the Tornado F3 and Jaguar fleets, along with the contracts for VC10 and Hawk will buy the time necessary to explore other opportunities for St Athan, but the work on these aircraft will gradually diminish and will inevitably be unable to sustain the business into the future.

Adam Ingram was pragmatic in his statement to Parliament in September that, in the longer term, failure to win alternative work could result in the closure of St Athan.

Besides there being a continued military interest in the site, which houses the Regimental Headquarters of the 1st Battalion Welsh Guards, the home of the RAF's Number 4 School of Technical Training and DARA, the remaining land at St Athan has been acquired under lease by the Welsh Development Agency, on behalf of the Welsh Assembly

Government, who share a common vision for the creation of a worldclass Aerospace business park.

A Task Force representing MOD, DARA, the Welsh Assembly, and other Government Departments is actively pursuing options for the long-term viability of the site. DARA and MOD remain committed to working with all the

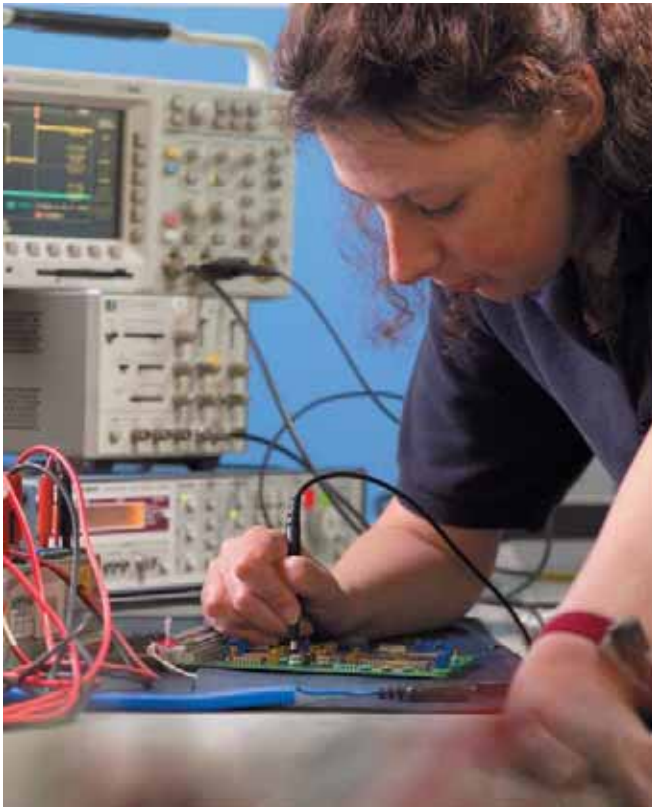
key stakeholders as defence work at the site draws down.

The new facility is a testament to the hard work and enthusiastic professionalism of many DARA employees. The task of bringing in one of the largest single construction projects in Wales on time and within budget was a major challenge, which the Project Team successfully delivered.



Archie Hughes welcoming the Rt Hon Rhodri Morgan at the opening of DARA's new superhanger at St Athan.





Operational and Business Performance - An Overview

Despite the negative implications the End-to-End decision will have on DARA's Fixed Wing business, there remains a culture of continuous improvement and evolution across all areas of the business. A major step was taken during the year to give greater autonomy and accountability to the Site Directors. The first step involved moving away from an operations based culture to one that has a clear business focus. The result is that Site Directors have become DARA's Business Directors, each carrying ultimate responsibility for the delivery and performance of each of their Business Units.

Benefits of a more empowered regime began to flow immediately; the move away from a corporate culture allowed those in the Business Units to have greater visibility of the functions that were previously delivered from the centre but would now be managed and paid for by each business. The commercial and business development teams now report directly into each Business Director, who have a greater responsibility for exploring new marketing opportunities. Also a highly visible reduction in the corporate headcount and overheads has allowed those generating the revenue to fully understand and appreciate the drivers of value in each business.

DARA's Electronics business at Sealand in North Wales continues to go from strength to strength. Two major contract wins in 2004 valued at £14m set the scene for the largest single contract win for this Business Unit. In March 2005 the Defence Logistics Organisation (DLO) signed a three-year contract with DARA worth £43m for the servicing and repair of various avionics equipment, including communications, radar and navigational aids. The contract has the added incentive to extend for a further four years if DARA can deliver the predicted savings over the next three years. Our Sealand business is also breaking new ground in non-military markets where our innovative proposals for high quality repairs and service solutions are generating great interest from customers in new markets such as rail operators. It remains an aspiration of DARA to grow this type of business.

'This (£43m) contract will help sustain jobs at DARA Electronics while, at the same time, achieving better value for money for taxpayers through greater effectiveness with predicted savings of £11m over the next three years.'

Armed Forces Minister, Adam Ingram
speaking about the DARA contract win.

At Almondbank in Perthshire, DARA's Components business made news when becoming the first organisation anywhere within MOD to achieve worldclass recognition with an Oliver Wight Class A Accreditation. Whilst in December, a nine-year contract with Rolls Royce Deutschland worth £9m was just the type of Christmas present the Almondbank employees deserved after putting in such a great performance during the year. The excellent relationship that exists between DARA's Components business and Boeing has resulted in contracts for the repair and

overhaul of Chinook components for the Dutch, Spanish, Greek, Singapore and South Korean governments. This global success indicates that there remain excellent opportunities for DARA to expand in markets across the world.

'DARA did an outstanding job on these transmissions for us.'

Jim Brunke, Vice President Supply Chain Services, Boeing.

At Fleetlands much attention has focused on the positive outcome from the End-to-End Review for DARA's Rotary business but the site is also home to the Agency's Engines business. This has been a year of declining and fluctuating work volumes, making it one of the most challenging for this specialised area of DARA. Sound management control and flexibility of the employees ensured output targets were met within agreed costing limits. During the year there have been some notable



commercial successes such as the three-year Gnome, spares inclusive, contract with Rolls Royce worth £5.3m, the £9.3m RB199 engine vane repair partnership contract with Chromalloy UK and the extension to the RB199 pilot module repair contracts. However, the future shape and size of DARA's Engines business will be determined by the outcome of the outstanding bids for work for Lynx GEM module repair and the Tornado RB199 whole engine support programme.

Overall, DARA's commercial and business performance throughout the year has delivered the anticipated results as specified in the five Key Targets set for DARA by the Armed Forces Minister. The Key Target relating to financial performance for Return on Capital Employed (RoCE) of at least 3.5% has, with a figure of 6.7%, once again been comfortably achieved. The Key target to secure a closing order book of £200m, of which £100m is deliverable in 2005/06, was also delivered by some margin with a closing order book of £251.57m, contributing to a positive result for this key performance measurement.

With respect to quality, only two major attributable customer concerns were received against a target of less than 15 during the year. However, one major concern is regarded as one too many and DARA continues to strive towards, and aim to maintain, a zero rating. DARA was also able to deliver on the Key

Target presenting a business case to the Minister covering future potential work in civil and other non-MOD markets. Although its conclusions, that DARA was uncompetitive in this market sector, were disappointing, were not unexpected.

Achieving reductions in total DARA costs by 11.8% during the year has more than delivered on the final Key Target, which required reductions of at least 5%.

Although the peripheral distractions during 2004/05 were significant, DARA has maintained a clear business focus and again delivered what it promised against a background of changing priorities and emergent demands. A solid business performance, coupled with a robust rationalisation of the corporate overheads and structure, has enabled DARA to complete a healthy trading year.



People – A Powerful Asset

The outcome of the End-to-End Review provided DARA with an opportunity to look closely at the corporate and organisational structure. This was most evident in the manpower organisation at Fleetlands where it was necessary to realign the organisational structure to reflect the additional workload that would flow from the transfer of work on the rotary platforms from the military bases. In order to deliver the cost benefits and savings identified in the Affordability Analysis, Fleetlands needs to shape the manpower profile to meet the increased volumes of work without significant additional resources. This has been a challenging and enlightening period for the employees working to meet our, and MOD's, high expectations. The early indications are encouraging but there is still some way to go if we are to fully realise

A solid business performance coupled with a robust rationalisation of the corporate overheads and structure has enabled DARA to complete a healthy trading year.

the benefits of the 'flow' line and 'lean' concepts that will deliver the required levels of output at a price that is true value for money.

DARA also reorganised its corporate and head office structures and staffing levels in line with the plan to migrate key functions to a Business Unit level and remove any non-value added activity in the centre. The result has been an

impressive decrease in corporate overheads and expenditure by over £10m, or 30%, in comparison to 2003/04. Over half of this reduction has transferred to the Business Units, reflecting the relocation of responsibilities already outlined earlier, whilst the balance represents a true

cost reduction to the business.

Unfortunately, 2004 has been the first year that DARA has had to undertake a programme of compulsory redundancies. At St Athan, a Future Manpower Project team successfully

implemented a redundancy programme utilising the in-house skills and expertise of managers and Trades Unions to minimise the effect on the employees considered most 'at risk'. Working closely with the Welsh Assembly and other Governmental agencies, DARA was able to reduce the impact of the 550 job losses at St Athan by prudent manpower management, curbing recruitment across all DARA business units and fully exploiting the Voluntary Early Release scheme. Outplacement services, training providers and advisory support organisations combined to offer DARA St Athan employees relevant and impartial advice on re-training programmes, future employment opportunities and financial management guidance. The result was that of the 550 reductions required, fewer than 70 compulsory redundancy notices were issued.

Throughout this pressurised and emotive period DARA's employees have continued to deliver an outstanding performance and it is a credit to their resilience and loyalty to their customers that they continuously raise their game during times of adversity.

The introduction of Team Leaders and a rigorous new training programme to support the new role has given greater empowerment to employees on the shopfloor. The interview and selection process has demonstrated again the

high levels of experience and skill that are abundant throughout the various DARA businesses. This has also been reinforced in DARA's homegrown Intensive Development Scheme (IDS), where employees with potential to succeed in senior roles are able to undertake a variety of projects, participate in mentoring schemes and attend development training programmes. The IDS participants come from a diverse range of backgrounds in DARA and have shown great enthusiasm and commitment to maintaining high levels of momentum and focus whilst undertaking their normal day-to-day duties.

Homegrown talent also extends to DARA's Apprenticeship Schemes. Although we recognise that at St Athan the long-term outlook and prospects are not conducive to apprentice training, we have,

nonetheless, undertaken to allow the intake for 2004 to graduate in the normal timeframe. Unfortunately we are unable, as in previous years, to guarantee a job on graduation. However, DARA's Apprentice Training Centres at Almondbank, Sealand and Fleetlands continue to recruit young talent based on future work projections and the evidence of the high

calibre of recruits is on show every year at the annual MOD Apprentice of the Year awards.



HRH The Princess Alexandra presenting the Tom Nevard award to Stuart Hardy.

Once again DARA apprentices figured highly in the awards during 2004. It was a one-two for DARA when Stuart Hardy from Almondbank scooped the Tom Nevard award, followed closely in second place by Edward Bell from Fleetlands. Emma Louise Davies from St Athan was a worthy recipient of the Bronze medal in the overall Apprentice of the Year category. The day was crowned for the trainees when HRH The Princess Alexandra personally presented their awards at a ceremony in London.

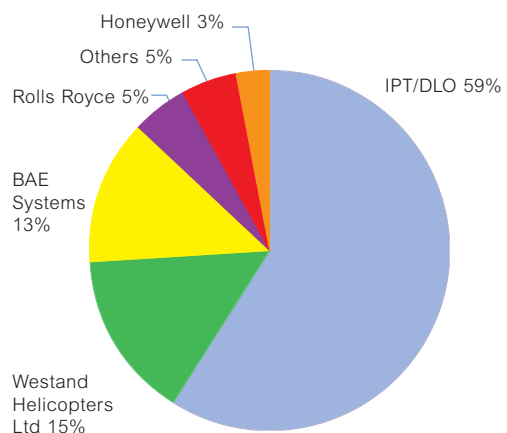
DARA continues to work closely with all the representative Trades Unions in a partnership of openness and common purpose. The challenges this year have been significant but working together with parallel interests has proved the most effective means to achieve our goals. DARA lays great store in the relationship that has evolved since the earliest days of the Partnership Agreement and commits to a continuous dialogue in an atmosphere based on mutual trust and respect with those who are representing the interests of their members.

Throughout the year DARA has further cemented the good working relationships that exist with elected representatives and officials of the UK parliament and devolved administrations. These relationships have been clearly tested during a year of significant change in DARA and are an important aspect of the profile that comes from being a major employer within the various local communities.

Sustainability for DARA in a Commercial Environment

DARA no longer has the comfort of guaranteed order books; we will only win new business if we can demonstrate we offer best value for money and deliver services which exceed the expectations of our customers. This is a challenge in a sector where there is widely acknowledged overcapacity more reliable and new equipment that comes with a support package provided by the manufacturer. Nevertheless, there is a place for DARA and our significant capabilities in the marketplace; we have demonstrated this by winning some major contracts, such as in Electronics and Components, and doubling the workload in Rotary. The nature of our business has changed considerably since we began as a Trading Fund, with 41% of our orders coming from industry, rather than MOD.

Source of Orders Won since FY 2001/02



To support our sales efforts and relationships with stakeholders, we continued to raise DARA's profile in the market place and improve communications with our customers. We

promoted DARA at exhibitions in Farnborough, London and Europe and continued our involvement with key national and regional industry bodies such as Aerospace Wales, SBAC and the Royal Aeronautical Society. We also became a member of the organisation representing the UK rail industry, to support development of new revenue streams in our Electronics and Components businesses.

Many of our marketing initiatives come from what customers tell us about our performance. Our Customer Review Programme (CRP) measures us against set criteria established to show if we are delivering the levels of service to our customers that we aim to achieve and maintain. We have significantly improved our performance this year from a baseline that was undeniably low and will continue the CRP process to deliver further improvements in the future.

We have produced a range of new brochures to complement our existing marketing material that better reflects DARA's future aspirations. All this material is now available on the new DARA website, which was subject to a major redesign during 2004/05.

As required by one of DARA's Key Targets we carried out detailed work exploring what potential exists for DARA to compete in wider markets. We concluded that it would be unrealistic and unlikely that DARA would succeed in securing civil aircraft work at St Athan, particularly whilst MOD volumes are in such significant decline.

However, there remains potential for new work in international defence markets and in non-aerospace related industries that share similar technologies and where safety or security are key considerations. This is of particular relevance to our Electronics and Components businesses where skills and technology are easily transferred.

In Components, we are developing prospects in rail components, fostering relationships with the local oil industry, and we are trying to capitalise on the potential of our cadmium plating capability. Our Electronics business continues to make progress in the rail industry, but we are also looking at the emerging opportunities in the health and emergency services.

From an overall commercial perspective, this has been a year where we have enjoyed some notable successes coupled with facing some unfortunate realities. We continue to apply focus and effort on winning business, whether new or repeat. We are committed to improving relationships with our customers, and we are working closely with all our stakeholders to secure a future for DARA.



DARA Statement on Internal Control

Scope of responsibility

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

As Chief Executive of DARA, I am personally accountable to the Secretary of State for Defence for the performance of DARA in accordance with the Framework Document and DARA's Corporate Strategic Plan. The DARA Ministerial Advisory Board, chaired by the Minister for Armed Forces as representative of our owners, meets quarterly to review DARA's performance against its key targets and Business Plan objectives.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of DARA's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in DARA for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts, and accords with Treasury guidance.

Capacity to handle risk

The DARA Board has provided leadership to the risk management process through the regular consideration of risk in the Board and Audit Committee meetings, and by the risk

management strategy and policy.

Our procedures for Corporate and Business Unit risk registers, together with our implementation of risk management for major projects, continues to ensure that risk management is embedded in all our business activities. We are actively assessing the approach to risk management, to ensure that all business units and projects continue to operate within Treasury guidelines.

A programme of risk awareness training ensures that staff are equipped with the skills required to manage risk effectively and meet business needs.

The risk and control framework

DARA is required to comply with HM Treasury instructions and guidelines for Corporate Governance. In order to meet the requirements of an embedded system of internal control DARA has established a Risk Management system which consists of;

- **A Risk Management Strategy** which incorporates the aims, objectives and rationale within DARA for managing risk.

- **A Risk Management Policy** which outlines the approach used within DARA for implementing risk management and includes a risk management reporting structure.
- **Appointed Risk Management Committee** which reviews and evaluates internal standards and procedures relative to the management of risk and disseminates risk information and guidance on best practice.
- **Appointed Risk Co-ordinators** within each Business Unit and Directorate who are responsible for the maintenance of local Risk Registers.
- **A DARA Corporate Risk Register** which contains the broad spectrum of corporate risks.
- **Business Continuity Plans** which are managed by the site risk co-ordinators to facilitate the unity of Risk Management and Business Continuity. All four DARA sites carried out tests of their Business Continuity Plans in 2004/05.
- **Insurance policies** are in place to meet DARA's legal responsibilities and to mitigate certain risks. No insurance is taken against any potential liabilities to the MOD.
- **Since the year end** it has been decided to outsource the provision of our Internal Audit function.

Review of Effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. DARA has established the following processes to identify, evaluate and control risk:

- A Board, which meets each month to consider the plans and strategic direction of the organisation, comprising the Executive Directors of DARA and two external independent Non-Executive Directors, one of whom is Chairman of the DARA Audit Committee, and the other chairman of DARA's Remuneration Committee.
- A Governance Review Group, which comprises all Executive Board members together with the Head of Internal Audit and other key personnel as required. The primary purpose of the Governance Review Group is to monitor and review all assurance activities being undertaken within DARA. The group also aims to further develop Corporate Governance practices in general.
- Periodic reports from the Chairman of the Audit Committee, to the Board, concerning internal control.
- Regular reports from each Directorate as part of the performance management regime. An assessment of the key risks and their management/mitigation is included in these reports.
- DARA staff and the Board fully understand

the Department's approach to Corporate Governance and the management of risk. This approach has produced a robust risk methodology using subjective assessments of High/Medium/Low risks against the impact of a particular risk to DARA objectives as well as a likelihood of the risk maturing. These assessments are updated regularly and form the basis of the decision making process at the Board.

- As experience increases, key performance and risk indicators will be established within our planning and performance systems, allowing management to identify emerging risk more swiftly and systematically than before.
- Risk Registers are owned, maintained and managed by the Business Units and Support Directorates with a Strategic Risk Register owned and managed by the Board. The Treasurer/Risk Manager reporting directly to the Finance Director has responsibility for coordinating and managing the Risk Management process.
- DARA Risk management structure has been designed to ensure that information is communicated upstream and downstream the organisation. Risk Management is included as a regular agenda item at Site and Directorate meetings with links into the Business Continuity Plans.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within DARA who have responsibility for the development and maintenance of the internal

control framework, and comments made by the external auditors in their management letter and other reports. I have received satisfactory letters of assurance from executive managers and the DARA Governance Review Group. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee. Plans to address control weaknesses and ensure continued improvement of our processes are in place.

Significant Internal Control Weaknesses

The DARA Statement on Internal Control for 2003/04 identified control weaknesses in the areas of Local Purchase Order, Government Procurement Card and Payroll. Action plans were put into place to address the identified weaknesses. These areas have also been subject to regular monitoring to ensure that the identified risks remain within the tolerances expressed by the Board. The areas no longer, therefore, represent areas of significant control weakness.

During the year the internal audit process did not identify any further areas of significant control weakness.



Archie Hughes
Chief Executive
30 June 2005



Remuneration Committee Report

The purpose of the Remuneration Committee is to agree the strategic policy in relation to the remuneration of DARA employees, consistent with the Personnel Delegations held by the Chief Executive of DARA.

A Non-Executive Director (Richard Fenny) is chairman of the Committee and there are three other Members, the Chief Executive of DARA, Finance Director and Human Resources Director.

The Committee met as required during the financial year.

The Committee continues to make a positive input into the strategic direction of DARA Pay Settlements prior to ratification by the DARA Board.

All recommendations arising from the Committee have been implemented.

There is a second remuneration committee which is a subsidiary of the Ministerial Advisory Board (MAB) and is chaired by the MAB Non-Executive Director. This committee advises the MAB on the DARA Chief Executive's annual bonus.



The full DARA Board, from left to right; Archie Hughes, Richard Fenny (Non-Executive Director), Alan Lewis, Andy Akerman, Derek Owen, John Reilly, David Galloway (Non-Executive Director).



Statement of Accounting Officer's Responsibilities

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

In preparing the accounts, the Accounting Officer is required to comply with Trading Funds Accounting Guidance prepared by HM Treasury and in particular to:

- observe the Accounts Direction issued by HM 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 have been followed, and disclose and explain any material departures in the financial statements;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that DARA will continue in operation.

The Accounting Officer of the Ministry of Defence has designated the Chief Executive of DARA as the Accounting Officer for the Trading Fund. His relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the public finances and for the keeping of proper records, are set out in the Accounting Officer's Memorandum, issued by HM Treasury and published in Government Accounting.



Archie Hughes

Chief Executive and Accounting Officer

30 June 2005



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

I certify that I have audited the financial statements on pages 42 to 61 under the Government Trading Funds Act 1973. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 46 and 47.

Respective Responsibilities of DARA, the Chief Executive and Auditor

As described on page 36, DARA and the Chief Executive are responsible for the preparation of the financial statements in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and for ensuring the regularity of financial transactions. DARA and the Chief Executive are also responsible for the preparation of the other contents of the Annual Report. My responsibilities, as independent auditor, are established by statute. I have regard to the standards and guidance issued by the Auditing Practices Board and the ethical guidance applicable to the auditing profession.

I report my opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Government Trading Funds Act 1973 and Treasury directions made thereunder, and whether in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the Agency has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my certificate if I become aware of any apparent misstatements or material inconsistencies with the financial statements.

I review whether the statement on pages 30-32 reflects DARA's compliance with Treasury's guidance on the Statement on Internal Control. I report if it does not meet the requirements specified by Treasury, or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered whether the Accounting Officer's Statement on Internal Control covers all risks and controls. I am also not required to form an opinion on the effectiveness of DARA's corporate governance procedures or its risk and control procedures.

Basis of opinion

I conducted my audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements. It also includes an assessment of the significant estimates and judgements made by DARA and the Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to DARA's circumstances, consistently applied and adequately disclosed.

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

Opinion

In my opinion:

The financial statements give a true and fair view of the state of affairs of DARA at 31 March 2005 and of the profit, total recognised gains and losses and cash flows for the year then ended and have been properly prepared in accordance with the Government Trading Funds Act 1973 and directions made thereunder by the Treasury; and

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

I have no observations to make on these financial statements.



John Bourn

Comptroller and Auditor General
5 July 2005
National Audit Office
157-197 Buckingham Palace Road
Victoria, London SW1W 9SP

Foreword to the Accounts

Statutory background

The Defence Aviation Repair Agency (DARA) was launched on 1 April 1999 and established as a Trading Fund on 1 April 2001.

These accounts have been prepared in compliance with the Trading Fund Accounts Guidance and in accordance with a direction given by HM Treasury in pursuance of Section 4(6) of the Government Trading Funds Act 1973.

Statement of purpose and aim

DARA is a Government owned facility for the repair, overhaul and maintenance of military aircraft, systems and components - including engines and avionics. Our aim is to be responsive, flexible, customer focused and highly competitive in the provision of deep aviation repair and supply in logistics to the UK Armed Forces and other customers.

Post balance sheet events

There are no post balance sheet events.

Market value of land

Fuller Peiser, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual, carried out a valuation of the Departmental Estate assets of the Agency on 1 September 2000. Land is revalued in the years between professional valuations using the Corporate Financial Controller (CFC) Modified Historical Cost Accounting (MHCA) index.

Results for the year

DARA's turnover for the year was £171.3m. Total expenditure, before interest and exceptional items, was £162.1m and operating profit £9.3m. Net assets as at 31 March 2005 were £122.2m and the ROCE key target of 3.5% was surpassed with a performance of 6.7%. Profit after interest was £9.5m. A dividend of £2m was declared and the retained surplus has been transferred to the General Reserve, to meet future investment needs.

The current DARA Board - Executive and Non-Executive Directors

Archie Hughes *Chief Executive*

John Reilly *Chief Operating Officer*

Andy Akerman *Finance Director*

(resigned 30 June 2005)

Ian Douglas *Finance Director*

(appointed 30 June 2005)

Derek Owen *Human Resources Director*

Alan Lewis *Commercial Director*

David Galloway *Non-Executive Director*

Richard Fenny *Non-Executive Director*

The details of all Directors of DARA during 2004/05 are shown at Note 5 to the Accounts. No Executive Director has any related party interests which may conflict with their management responsibilities.

Employment of people with disabilities and equal opportunities

DARA is committed to a policy of equality and diversity. The only test applied for recruitment, retention or advancement is the ability to do the job. DARA's Equality and Diversity Officer has established an effective committee, responsible for monitoring the Agency's equality and diversity policy and ensuring that new policies are introduced in line with changes in legislation and MOD policy, and to meet DARA's own business needs.

Communications and employee involvement

DARA believes that communication and involvement are essential to the successful running of the organisation. DARA encourages full two-way communications with all employees. The DARA Board considers staff involvement and feedback to be essential to the running of the business. The Chief Executive, supported by key board members, takes every opportunity to continuously communicate with staff through regular briefings. DARA continues to produce and distribute a bi-monthly news magazine and there is a corporate intranet site which staff on all four sites may access.

DARA management work closely and consult with the Trades Unions in accordance with the Partnership Agreement. DARA has Trades Unions representatives on the Management Board and representatives are involved and

participate in a number of joint working groups throughout the business. Consultation and communications procedures continue to improve.

Payment policy

DARA's policy is to pay its suppliers within contracted payment terms or general conditions governing the terms for the type of business undertaken or, in the absence of specially agreed terms, within 30 days of receipt of a valid invoice. This complies with the HM Treasury guidelines and the Government's 'Better Payment Practice Code'. In 2004/05, 95% of invoices by value were paid within this target.

Redundancy

MOD has agreed to pay for DARA's redundancy costs, in 2004/05 these costs amounted to £15.344m (2003/04 £16.201m).

Auditors

Trading Fund Accounts Guidance requires DARA's Annual Report and Accounts to be audited by the Comptroller and Auditor General. The cost of the audit is £80k. No payment was made to the auditor for any other service.

Accounts year end 31 March 2005

Profit and Loss Account for the year ended 31 March 2005

	Note	2004/2005 £'000	2003/2004 restated (i) £'000
Turnover	2	171,335	189,538
Cost of sales (i)	3	142,833	150,970
Gross profit		28,502	38,568
Operating expenses (i)	3	19,232	28,391
Operating profit		9,270	10,177
Losses on termination of an operation	3	-	1,710
Loss on disposal of fixed assets	3	153	482
Profit on ordinary activities before interest		9,117	7,985
Interest receivable		3,414	2,312
Interest payable	4	2,990	3,784
Profit on ordinary activities before dividend		9,541	6,513
Dividend payable		2,000	-
Retained profit		7,541	6,513
Return on capital employed (ROCE)		6.71%	5.68%
ROCE - Three year rolling average		6.19%	6.36%

(i) £27,026k in the 2003/04 comparative figure has been transferred from Operating Expenses to Cost of Sales. This adjustment better reflects the substance and nature of these costs as explained in note 3. The reclassification has no net effect on the disclosed operating profit for the year of £10,177k.

The notes on pages 46 to 61 form part of these accounts.

Accounts year end 31 March 2005

Balance Sheet at 31 March 2005

	Note	31 March 2005 £'000	31 March 2004 £'000
Fixed assets			
Tangible	7	60,132	56,593
		60,132	56,593
Current assets			
Stocks & work in progress	8	12,748	12,100
Debtors and prepayments	9	25,030	31,077
Cash at bank and in hand	10	71,139	77,267
		108,917	120,444
Current liabilities			
Creditors: amounts falling due within one year	11	(44,410)	(40,323)
Net current assets		64,507	80,121
Total assets less current liabilities		124,639	136,714
Provisions for liabilities and charges	12	(2,412)	(4,919)
Net assets		122,227	131,795
Financed by:			
Capital and reserves			
Public dividend capital		42,303	42,303
Long-term loans	13	45,350	64,590
Revaluation reserve	14	4,527	2,725
General reserve	15	30,047	22,177
Government funds		122,227	131,795

The notes on pages 46 to 61 form part of these accounts.



Archie Hughes

Chief Executive

30 June 2005

Accounts year end 31 March 2005

Cash flow statement for the year ended 31 March 2005

	Note	2004/2005 £'000	2003/2004 £'000
(a) Reconciliation of operating profit to net cash inflow from operating activities:			
Operating profit		9,270	10,177
Impairment of fixed assets		5,407	6,003
Depreciation charges		4,608	4,935
(Decrease)/increase in provisions for liabilities and charges		(2,507)	(994)
(Increase)/decrease in stock & WIP		(648)	662
Decrease/(increase) in debtors		6,061	21,564
Increase/(decrease) in creditors		3,991	5,447
Net cash inflow from operating activities		26,182	47,794
(b) Cash flow statement:			
Net cash inflow from operating activities		26,182	47,794
Returns on investments and servicing of finance	16a	420	(1,500)
Capital expenditure	16a	(11,090)	(161)
Financing	16a	(21,640)	11,960
(Decrease)/increase in cash		(6,128)	58,093
(c) Reconciliation of net cash flow to movement in net funds:			
(Decrease)/increase in cash	16b	(6,128)	58,093
Decrease/(increase) in borrowings		21,640	(11,960)
Movement in net funds	16b	15,512	46,133
Net funds/(debt) at start of year		5,437	(40,696)
Net funds at end of year	16b	20,949	5,437

The notes on pages 46 to 61 form part of these accounts.

Accounts year end 31 March 2005

Statement of total recognised gains and losses for the year ended 31 March 2005

	2004/2005	2003/2004
	£'000	£'000
Profit for the financial year	9,541	6,513
Surplus on revaluation of fixed assets credited to the reserves	2,222	1,920
Less: revaluations on assets disposed	(31)	(5)
Transfer out of revaluation reserve	(389)	(410)
Transfer into general reserve	329	88
Total recognised gains and losses relating to the year	11,672	8,106

Reconciliation of movements in Government funds

Government funds at 1 April	131,795	114,129
Dividends	(2,000)	-
Total recognised gains and losses relating to the year	11,672	8,106
Movements in long-terms loans	(19,240)	9,560
Net movement in Government funds	(9,568)	17,666
Balance at 31 March	122,227	131,795

The notes on pages 46 to 61 form part of these accounts.

Notes to the Accounts for the year ended 31 March 2005

1 Accounting policies

Basis of accounting

The accounts have been prepared in accordance with the Trading Funds Accounts Guidance issued by HM Treasury, which provides guidance on the application of generally accepted accounting practice in the United Kingdom to Trading Funds, and the Accounts Direction issued by the Treasury. The particular accounting policies adopted by DARA are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting convention

These accounts have been prepared in accordance with the accruals concept and the historical cost convention, modified to account for the revaluation of land and buildings and other fixed assets, at current costs or value to the business.

Turnover

Turnover comprises the invoiced value of services (excluding VAT and other sales taxes).

Land and buildings

Where DARA is the principal beneficial user of Departmental Estate, such estate is treated as an asset of the Agency although legal ownership rests with the Secretary of State for Defence. A professional valuation, in accordance with the Royal Institute of Chartered Surveyors Appraisal and Valuation Manual, is carried out every five years. Land and Buildings are revalued in the years between professional valuations, using the Corporate Financial Controller (CFC) Modified Historical Cost Accounting (MHCA) index.

Other fixed assets

Plant, equipment, computers and motor transport are capitalised where the useful life exceeds one year and the cost of acquisition exceeds £10,000 excluding VAT. The value of capitalised plant, equipment and motor transport is reviewed annually and adjustments made for technological obsolescence, using the CFC MHCA Index in the relevant periods.

Depreciation

Freehold land is not depreciated. Depreciation on buildings, plant and equipment, motor vehicles and IT equipment is calculated to write off the cost, or valuation, of assets by equal instalments over their estimated useful lives. The lives are periodically reviewed for obsolescence of the assets.

The depreciation rates applied to the main categories of assets are based on the following estimates of useful life.

Buildings	Not exceeding fifty years
Plant & Equipment	Between three and twenty years
Motor Transport	Between three and ten years
IT Equipment	Between three and ten years

Where an impairment loss has occurred with reference to the value in use of an asset, a discount rate of 3.5% has been applied to the cashflows.

Pension costs

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS) and Armed Forces Pension Schemes (AFPS) which is non-contributory and unfunded. Although the scheme is a defined benefit scheme liability for payment of future benefits is a charge to the PCSPS. The cost of pension cover provided is by payments of charges (Accrued Superannuation Liability Charges ASLC) based on a percentage of salary. Salaries include gross salary, performance bonuses and recruitment and retention allowances. It does not include the estimated monetary value of benefits in kind. Payments are made at contribution rates determined by the Government Actuary.

Notes to the Accounts for the year ended 31 March 2005

Foreign exchange

All foreign denominated transactions are translated at the appropriate rate of exchange, being the previous month's average rate. At 31 March, balances are translated into sterling at the year end spot rate.

Use of financial instruments is explained in note 19.

Stock

Stock is valued at the lower of cost (including attributable overheads) and net realisable value. The majority of DARA's work for the MOD is on a spares exclusive basis. Material held for this purpose continues to be owned by the MOD and is not included in DARA's stock valuation. DARA's stock comprises material purchased to support spares inclusive contracts and spares manufactured and owned by DARA itself. Provisions are made to cover obsolescent items. Items are reviewed for obsolescence on an annual basis.

Work in progress

Work in progress is valued on the basis of direct labour and indirect production support, plus those business overheads that are directly related to production activity. The rates used to value WIP are reviewed annually.

Long term contracts

Long term contract balances are stated at costs incurred (net of amounts transferred to cost of sales), after deducting related payments on account. Profit on individual long term contracts is taken only when their outcome can be foreseen with reasonable certainty, based on the lower of the percentage margin earned to date and that prudently forecast at completion, taking account of agreed claims. Turnover on long term contracts is ascertained in a manner appropriate to the stage of completion of the contract.

Provision for losses on contracts

When it is known that a contract is forecast to make a loss, a provision is made at the time the loss is identified.

Provisions for business rationalisation

The MOD has confirmed that it will meet any liabilities for redundancy or in respect of the Red Dragon facility which might arise as a consequence of the rationalisation of the business in future. Accordingly no provision has been made for these potential future liabilities in these accounts.

Operating leases

Rentals under operating leases are charged to the profit and loss account as incurred.

Return on capital employed

The basis for calculating return on capital employed is the profit before interest for the year, as a percentage of the average capital employed during the year. Capital employed comprises public dividend capital, retained earnings, realised revaluation surpluses, unrealised revaluation surpluses and all loans both short term and long term provided from government sources.

Provision for bad and doubtful debts

DARA makes provision for bad and doubtful debts based on an aged debtor and debtor category analysis. Bad debts are written off immediately they are deemed to be irrecoverable.

Value Added Tax

DARA has a single registration for VAT with HM Revenue & Customs and accounts for VAT on an accruals basis.

Notes to the Accounts for the year ended 31 March 2005

2 Turnover

Turnover is not analysed by market segment because substantially all of the turnover relates to the same class of business: the repair, overhaul and maintenance of military aircraft, systems and components, including engines and avionics.

Turnover is stated net of trade discounts, provisions, VAT and similar taxes. There were no acquisitions or discontinued operations with the majority of turnover arising from UK sources.

Notes to the Accounts for the year ended 31 March 2005

3 Cost of sales, operating expenses and exceptional items

Cost of sales (i):	Note	2004/2005 £'000	2003/2004 (i) £'000
Staff costs	5b	97,391	108,246
Supplies and services consumed		18,574	20,903
Accommodation costs		14,288	10,224
Depreciation		4,391	4,293
Other administration costs	6	8,189	7,304
Total cost of sales		142,833	150,970
Operating expenses (i):			
Staff costs	5b	7,388	10,412
Supplies and services consumed		784	566
Accommodation costs		1,325	858
Depreciation		217	642
Other administration costs	6	9,518	15,913
Total operating expenses		19,232	28,391
Cost of sales & operating expenses:			
Staff costs	5b	104,779	118,658
Supplies and services consumed		19,358	21,469
Accommodation costs		15,613	11,082
Depreciation		4,608	4,935
Other administration costs	6	17,707	23,217
Total cost of sales & operating expenses		162,065	179,361
Exceptional items:			
Provision for losses on termination of an operation (ii)		-	1,710
Loss on disposal of fixed assets		153	482
Total exceptional items		153	2,192

(i) £27,026k in the 2003/04 comparative figure has been transferred from Operating Expenses to Cost of Sales. This is to reflect the refinement of cost attribution to Cost of Sales carried out in 2004/05 and included in the 2004/05 figures to better reflect the substance and nature of the costs. The reclassification has no net effect on the total cost of sales and operating expenses of £179,361k disclosed for the year 2003/04.

(ii) This cost represents the known anticipated losses to be incurred as a result of the MOD decision to terminate the Harrier Maintenance activity at DARA St Athan in FY 2004/05.

Notes to the Accounts for the year ended 31 March 2005

4 Interest payable and similar charges

	2004/2005	2003/2004
	£'000	£'000
On short-term bank loans and overdrafts	-	-
On loans wholly repayable within five years	-	-
On loans not wholly repayable within five years (i)	2,990	3,784
Total interest payable and similar charges	2,990	3,784

(i) A loan which was scheduled for repayment by 2008 was repaid early, in full, during the year.

Notes to the Accounts for the year ended 31 March 2005

5 Staff numbers and costs

(a) Staff numbers	2004/2005	2003/2004
	Number of employees	Number of employees
The average number of persons employed during the year was:		
Senior management	17	19
Service personnel	40	50
Civilian personnel	3,480	3,869
Agency staff	178	271
Total staff numbers	3,715	4,209

Total number of persons employed at 31 March 2005 (including Agency staff) was 3,511 employees (4,012 as at 31 March 2004), equivalent to 3,497 full time employees (3,969 as at 31 March 2004).

(b) Payroll costs	2004/2005	2003/2004(i)
	£'000	£'000
in Cost of sales (i):		
Salaries, wages and allowances	77,449	84,183
Social security	5,796	6,251
Pension costs	9,704	10,238
Agency staff	6,152	7,574
Utilisation of provision for loss on termination of an operation	(1,710)	-
Total payroll costs in cost of sales	97,391	108,246
in Operating expenses (i):		
Salaries, wages and allowances	5,681	7,755
Social security	491	650
Pension costs	786	1,064
Agency staff	430	943
Total payroll costs in operating expenses	7,388	10,412
Total payroll costs:		
Salaries, wages and allowances	83,130	91,938
Social security	6,287	6,901
Pension costs	10,490	11,302
Agency staff	6,582	8,517
Utilisation of provision for loss on termination of an operation	(1,710)	-
Total payroll costs	104,779	118,658

(i) refer to Note 3 (i)

Notes to the Accounts for the year ended 31 March 2005

5 Staff numbers and costs (Continued)

(c) Pension benefits for civilian employees are provided through the Civil Service Pension arrangements. From 1 October 2002, Civil Servants may be in one of three statutory based 'final salary' defined benefit schemes (Classic, Premium and Classic Plus). The schemes are unfunded, with the cost of benefits met by monies voted by Parliament each year. Pensions payable under Classic, Premium and Classic Plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of Premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

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

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee. The employee does not have to contribute but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the

employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally provided risk benefit cover (death in service and ill health retirement).

The Principal Civil Service Pension Scheme (PCSPS) is an unfunded defined benefit scheme and it is not possible to separately identify DARA's share of the underlying assets and liabilities. A full actuarial valuation was carried out as at 31 March 2003. Details can be found in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk).

Employer contribution rates are determined by the Government Actuary at one of four rates in the range 12% to 18.5% of pensionable pay, based on salary bands.

Employer contributions are reviewed every four years, following a full scheme valuation by the Government Actuary. The contribution rates reflect benefits as they are accrued, not when the costs are actually incurred, and reflect past experience of the scheme. Rates of charge will increase from 1 April 2005. Salary bands are revalorised each year.

Similarly, employers' contributions to the Armed Forces Pension Scheme (AFPS) are determined by the Government Actuary at a rate of 33.8% for Officers and 18.2% for other ranks.

For 2004/05 employers' contributions of £50,540 were paid to one or more of a panel of four appointed stakeholder pension providers (2003/04: £38,493). Employer contributions are age-related and range from 3% to 12.5% of pensionable pay. Employers also match employee contributions up to 3% of pensionable pay. Contributions due to the partnership pension providers at the balance sheet date were £1,810.

Nine persons retired early on ill-health grounds; the total accrued pension liabilities in the year amounted to £11,567.

Notes to the Accounts for the year ended 31 March 2005

5 Staff numbers and costs (Continued)

(d) The remuneration of the directors of DARA in 2004/05 was as follows:

	Gross Salary, bonus and allowances (last year in brackets)	Real increase in pension and related lump sum at age 60	Total accrued pension at age 60 at 31 March 2005 and related lump sum	Cash Equivalent Transfer Value (CETV) at 31/03/2004	Cash Equivalent Transfer Value (CETV) at 31/03/2005	Real increase in Cash Equivalent Transfer Value (CETV) after adjustment for inflation and changes in market investment factors
	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors						
Archie Hughes <i>Chief Executive Officer</i>						consent for disclosure withheld
John Reilly <i>Chief Operating Officer</i>						consent for disclosure withheld
Andy Akerman <i>Finance Director</i>						consent for disclosure withheld
Derek Owen <i>Human Resources Director</i>						consent for disclosure withheld
Alan Lewis <i>Commercial Director</i> (Commenced 23 April 2004)						consent for disclosure withheld

A Cash Equivalent Transfer Value (CETV) is the actuarially capitalised value of the pension scheme benefits accrued by a member at a particular point in time.

None of the directors have opted for a Partnership Account. Therefore there are no employer contributions to such accounts in respect of these directors.

Non Executive Directors

	Age	Fees (£'000)
Richard Fenny <i>Non-Executive Director</i>	55	0 - 5
David Galloway <i>Non-Executive Director</i>	59	5 - 10

Notes to the Accounts for the year ended 31 March 2005

6 Other administration costs

	2004/2005	2003/2004
in Cost of sales:	£'000	£'000
Travel and subsistence, including vehicle hire	1,329	1,550
IT and telecommunications	201	398
Training, recruitment and consultancy	1,274	1,418
Impairment of fixed assets (ii)	5,341	5,828
Other expenses	4,533	4,053
Cost reimbursement (iii)	(4,184)	(3,892)
Utilisation of provision for loss making contracts	(305)	(2,051)
Total other administration costs in cost of sales	8,189	7,304
in Operating expenses:		
Auditors' remuneration (i)	80	90
Travel and subsistence, including vehicle hire	672	1,155
IT and telecommunications	7,221	9,728
Training, recruitment and consultancy	1,180	2,855
Insurance	1,154	1,162
Impairment of fixed assets (ii)	66	175
Other expenses	1,159	1,045
Cost reimbursement (iii)	(2,014)	(297)
Total other administration costs in operating expenses	9,518	15,913
Total:		
Auditors' remuneration (i)	80	90
Travel and subsistence, including vehicle hire	2,001	2,705
IT and telecommunications	7,422	10,126
Training, recruitment and consultancy	2,454	4,273
Insurance	1,154	1,162
Impairment of fixed assets (ii)	5,407	6,003
Other expenses	5,692	5,098
Cost reimbursement (iii)	(6,198)	(4,189)
Utilisation of provision for loss making contracts	(305)	(2,051)
Total of other administration costs	17,707	23,217

(i) Auditors' remuneration is for the statutory audit fee due to the National Audit Office.

(ii) Impairment of fixed assets relates primarily to plant, equipment and buildings at the Fleetlands site to reflect an anticipated decline in activity in the Engines business.

(iii) Cost reimbursement includes payment by MOD (£1.0m) and the Welsh Development Agency (WDA) (£0.8m) to cover their share of the costs of running the airfield at St Athan, and payment by the WDA (£1.317m) for some of the costs of relocating into the new superhangar at St Athan, all of which are new in 2004/05 as a result of Project Red Dragon and the developments at the St Athan site. The total cost reimbursement has been shown separately this year for greater visibility, and the 2003/04 figures restated to reflect this also.

Notes to the Accounts for the year ended 31 March 2005

7 Fixed assets

The movements in each class of assets were:

	Land & Buildings	Plant & Equipment, Motor Vehicles and IT	Assets in course of construction	Total tangible
Cost or valuation:	£'000	£'000	£'000	£'000
At 1 April 2004	51,732	25,080	-	76,812
Additions	-	-	11,599	11,599
Disposals	(19)	(2,927)	-	(2,946)
Revaluation	2,263	396	-	2,659
Reclassification (i)	213	9,089	(9,302)	-
At 31 March 2005	54,189	31,638	2,297	88,124

Depreciation:

At 1 April 2004	9,474	10,745	-	20,219
Depreciation charged during the year	1,541	3,067	-	4,608
Impairments	997	4,572	-	5,569
Disposals	(4)	(2,735)	-	(2,739)
Revaluation	240	95	-	335
At 31 March 2005	12,248	15,744	-	27,992

Net book value

At 1 April 2004	42,258	14,335	-	56,593
At 31 March 2005	41,941	15,894	2,297	60,132

(i) Reclassification comprises the capitalisation of assets in the course of construction primarily the additional assets in the new facility at St Athan.

8 Stocks and work in progress

	31 March 2005		31 March 2004	
	£'000	£'000	£'000	£'000
Stocks		3,107		2,989
Work in progress - net costs incurred	9,967		9,977	
Less: applicable payments on account	326		866	
Subtotal		9,641		9,111
Total stocks and work in progress		12,748		12,100

Notes to the Accounts for the year ended 31 March 2005

9 Debtors and prepayments

	31 March 2005	31 March 2004
	£'000	£'000
Trade and other debtors (i)	21,015	24,612
Bad debt provision	(111)	(227)
Prepayments and accrued income	4,126	6,692
Total debtors and prepayments	25,030	31,077

(i) Within Trade and other debtors is a balance of £13,740k for other central government bodies.

10 Cash at bank

Cash on short term deposit (i)	70,000	75,000
Cash at bank	1,139	2,267
Total cash at bank	71,139	77,267

(i) Wherever possible cash is held in interest earning accounts, which are redeemable on demand within one working day.

11 Creditors

Amounts falling due within one year:

Trade creditors (i)	2,140	2,527
Taxation and social security	3,219	2,659
Accruals	16,521	12,460
Deferred income	15,423	14,926
Sundry creditors	267	511
Long term loans payable within 12 months (ii)	4,840	7,240
Dividends payable	2,000	-
Total creditors - amounts falling due within one year	44,410	40,323

(i) Within Trade creditors is a balance of £267k for other central government bodies.

(ii) One of the two ES (Air) eight year loans was repaid during the year including a short term element of £2,400k reflected here.

Notes to the Accounts for the year ended 31 March 2005

12 Provisions for liabilities and charges

	Loss on contracts note (i) £'000	Loss on termination of an operation note (ii) £'000	Revenue provision note (iii) £'000	Other note (iv) £'000	Total £'000
Balance at 1 April 2004	472	1,710	2,051	686	4,919
(Decrease)/increase in provisions	-	-	(180)	(163)	(343)
Utilised in year	(305)	(1,710)	(16)	(133)	(2,164)
Balance at 31 March 2005	167	-	1,855	390	2,412

- (i) The provision for loss on contracts will be set against expected future losses on previously negotiated contracts.
(ii) This provision was established for the expected losses as a result of the MOD decision to terminate the Harrier Maintenance operation at DARA St Athan, the provision has been utilised in FY 2004/05.
(iii) Revenue provision is in respect of the probable repayment of amounts invoiced to MOD customers, where refunds or partial refunds are likely.
(iv) Other provisions consists of redundancy administration and slow moving stock.

The commitments provided for, fall due in the following periods:

	Loss on contracts £'000	Loss on termination of an operation £'000	Revenue provision £'000	Other £'000	Total £'000
Amounts payable within:					
Under one year	167	-	1,855	390	2,412
One to five years	-	-	-	-	-
Over five years	-	-	-	-	-
Total	167	-	1,855	390	2,412

Notes to the Accounts for the year ended 31 March 2005

13 Long term loans

	31 March 2005	31 March 2004
	£'000	£'000
DLO Long Term Loan repayable by 31 March 2021	31,725	33,840
ES (Air) loan repayable by 31 March 2011	12,000	28,800
DLO loan repayable by 31 March 2011	1,625	1,950
Total long term loans	45,350	64,590

Amounts repayable within one year are included in creditors - see note 11
 One of the two ES (Air) eight year loans was repaid during the year. The total loan repaid was £16,800k of which £14,400k was from the long term element.

14 Revaluation reserve

	2004/2005	2003/2004
	£'000	£'000
Balance at 1 April	2,725	1,220
Transfer to profit and loss account	(60)	(322)
Transfer to general reserve	(329)	(88)
Revaluations in year	2,222	1,920
Less: revaluations on assets disposed	(31)	(5)
Balance at 31 March	4,527	2,725

The MOD Corporate Financial Controller (CFC) issues indices each year which are applied to relevant asset categories to facilitate revaluation.

15 General reserve

Balance at 1 April	22,177	15,576
Retained profit	7,541	6,513
Transfer from Revaluation Reserve	329	88
Balance at 31 March	30,047	22,177

Notes to the Accounts for the year ended 31 March 2005

16 Cash flow statement note

	2004/2005	2003/2004	
(a) Detailed analysis of gross cash flows	£'000	£'000	
Returns on investments and servicing of finance			
Interest received	3,410	2,284	
Interest paid	(2,990)	(3,784)	
Returns on investments and servicing of finance	420	(1,500)	
Capital expenditure			
Assets in the course of construction	(1,840)	-	
Purchase of fixed assets	(9,250)	(170)	
Disposal of fixed assets	-	9	
Capital expenditure	(11,090)	(161)	
Financing			
With the Defence Logistics Organisation of the MOD:			
(Decrease)/increase in short term borrowing	(2,400)	2,400	
(Decrease)/increase in other borrowings	(19,240)	9,560	
Financing	(21,640)	11,960	
	At 1 April 2004	Cashflow	At 31 March 2005
(b) Analysis of changes in net funds	£'000	£'000	£'000
Cash at bank and in hand	77,267	(6,128)	71,139
Debt due within one year	(7,240)	2,400	(4,840)
Debt due after one year	(64,590)	19,240	(45,350)
Total	5,437	15,512	20,949

Notes to the Accounts for the year ended 31 March 2005

17 Operating leases

	2004/2005	2003/2004
	£'000	£'000
Operating profit is shown after charging for operating lease rentals as follows:		
Lease of buildings at RAF St Athan (i)	2,606	718
Lease of vehicles (ii)	488	439
Lease of ERP IT System (iii)	897	3,586
Total operating lease rentals	3,991	4,743

- (i) Contained within note 3 - Accommodation costs
(ii) Contained within note 6 - Vehicle hire, and Other expenses
(iii) Contained within note 6 - IT and telecommunications

Commitments in the next financial year (2005/06) are as follows:

	Land & Buildings	Vehicles	IT	Total
	£'000	£'000	£'000	£'000
Leases expiring within:				
One year	52	-	-	52
Two to five years inclusive	1	199	-	200
Over five years	6,882	319	-	7,201
Total	6,935	518	-	7,453

There are no finance leases.

18 Commitments and contingent liabilities

There are no commitments or contingent liabilities at 31 March 2005 (and nil at 31 March 2004).

Notes to the Accounts for the year ended 31 March 2005

19 Financial Instruments

Treasury operations are conducted within a framework of policies, mandates and delegations authorised by the Board. DARA uses forward foreign currency sales contracts as derivative instruments for risk management purposes only. The internal control environment is regularly reviewed.

Interest Rate Risk

DARA's funding is determined by fixed rate Government loans. There are no floating rate liabilities. The weighted average rate of interest for 2004/05 was 4.69% (2003/04: 4.90%). The weighted average period for which the rate is fixed is 13 years. One eight year loan with ES Air was repaid during the year (value £16.8m) - the interest applicable was 5.625%.

Currency Risk

DARA conducts business in £ sterling, US dollars and euros and is therefore subject to foreign exchange risk. DARA manages this risk by natural hedging and entering into forward foreign exchange contracts. DARA has three active foreign currency bank accounts. DARA policy states that transactions are translated at the prior month average rate. Year-end foreign denominated net assets have been translated at the year end spot rate.

Liquidity Risk

DARA has a combination of 8 year and 20 year loans, mitigating the risk of significant liabilities maturing at the same time. Current liquidity throughout the year was strong. Cash at bank is available on demand and short term investments are conducted through the HM

Treasury Debt Management Account Deposit Facility (DMADF) and the Lloyds TSB Bank plc Money Market.

Counterparty / Credit Risk

DARA's policy is to minimise counter-party risk by only entering into contracts with institutions with long term credit ratings of AA or better. DARA has one forward sales contract arrangement with the Bank of England for total value of US\$10.9m, (US\$ 6.1m outstanding at the Financial Year End) structured as 12 biannual contracts for completion in February 2008. The principal customer is the MOD and therefore credit risk is minimal.

20 Related parties

The Ministry of Defence (MOD) is a related party. During the year, DARA has had material transactions with the Department and with other entities for which MOD is the parent department. None of the DARA Board members or key managerial staff have any related party interests which may conflict with their management responsibilities.

21 Post Balance Sheet events

There are no post balance sheet events.

22 Losses and special payments

There were no losses or special payments made during the year.



FIXED WING • ROTARY WING • ENGINES • ELECTRONICS • COMPONENTS

For further information on our capabilities and services:	Telephone	+44 (0)1446 755000	Fax	+44 (0)1446 755239
Web	www.daranet.co.uk	Address	DARA Head Office: St Athan • Barry • Vale of Glamorgan CF62 4AD • United Kingdom	

Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries 0870 600 5522

Fax orders 0870 600 5533

Order through the Parliamentary Hotline Lo-call 0845 7 023474

E-mail book.orders@tso.co.uk

Textphone 0870 240 3701

TSO Shops

123 Kingsway, London WC2B 6PQ

020 7242 6393 Fax 020 7242 6394

68-69 Bull Street, Birmingham B4 6AD

0121 236 9696 Fax 0121 236 9699

9-21 Princess Street, Manchester M60 8AS

0161 834 7201 Fax 0161 833 0634

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

18-19 High Street, Cardiff CF10 1PT

029 2039 5548 Fax 029 2038 4347

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders 020 7219 3866

TSO Accredited Agents

(see Yellow Pages)

and through good booksellers

ISBN 0-10-293456-8



9 780102 934564