

Contents

02 Our Vision, Purpose, Mission and Values



03 The work we do

04 Chairman's statement

05 Chief Executive's statement



07 Delivering high-quality, customer-focused services and products

12 Developing our knowledge, our people and our capabilities



14 Building effective, trusted partnerships

16 Protecting and exploiting our Intellectual Property (IP)

18 Creating organisational excellence



20 Corporate Social Responsibility (CSR)

21 Statement by Dstl Trades Unions



22 Financial highlights and outlook

24 Key Targets

26 Statement on internal control



30 Directors' remuneration report

34 Accounts

Defence Science and Technology Laboratory

Annual Report and Accounts 2007/2008

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Our Vision, Purpose, Mission and Values

Vision

Our Vision describes the kind of organisation we aspire to be. It is an expression of how Dstl will build a successful future. It addresses what we are passionate about doing, and what motivates us.

Our Vision is to be the indispensable source of Science and Technology (S&T) at the heart of defence.

Purpose

Our Purpose defines what the organisation is here to do and is a statement of what the Ministry of Defence (MOD), as our Owner, requires from us.

Our Purpose is to deliver value to the UK taxpayer by providing outputs of research, timely advice and solutions to customers' defence and security-related problems.

Mission

Our Mission describes the organisation in terms of the impact we want to make in the world. It reflects how we intend to fulfil our Purpose and achieve our Vision.

Our Mission is to create the winning edge for UK Forces and Government through the best use of S&T.

Values

The type of organisation Dstl becomes corporately, and what will distinguish us from others, will be defined by the way we behave as individuals. Our Values describe the way we behave, day by day. These are:

- supporting each other regardless of position in the organisation
- cherishing knowledge
- commitment to the public interest
- responsiveness
- excellence
- creativity.

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

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The work we do

Dstl provides science and engineering-based products, services and expertise to Government on defence and security issues. This work falls into six main product areas:

- decision support
- defence enterprise management support
- support to operations
- innovative capability and systems concepts
- innovative technology exploitation
- S&T services.

Our work creates the evidence base for major decisions – covering the full range of policy, operational, military capability, scientific and acquisition issues. We support customers in their planning, procurement and risk management activities, and deliver assurance of the science and technology they exploit.

We work extensively with industry and academia to help understand, develop and evaluate a range of options to meet customers' future capability requirements. We also exploit advances in science and technology to deliver practical solutions to defence and security-related problems in areas of national and international sensitivity.

Our wide-ranging expertise is underpinned by an authoritative understanding of defence policy, complete systems and sub-systems and world-class research capabilities. Dstl's unique position in MOD gives us an overview of our customers' problems, across domains and over time, which helps to bring an integrated and coherent approach to our programmes.

The breadth of our work means that our highly skilled and professional workforce is operating at the leading edge of defence S&T. We are therefore a key source of specialist staff for MOD and Other Government Departments (OGDs) and our people also work on secondment, or interchange, in these organisations.



Chairman's statement

This year, Dstl has again been successful in fulfilling its mission to provide the winning edge for our Armed Forces and Other Government Departments through the application of S&T.

Our teams of volunteers in Afghanistan and Iraq, led by Dstl Scientific Advisers, have provided valuable advice to front-line commands and actively supported our troops in delivering their challenging operational goals. I would like to thank all those involved for their dedication and their willingness to deliver highly important results under difficult conditions.

Our technical teams have also provided solutions to many other problems, both immediate and longer term, ranging from the development of a new kind of ultra-strong steel for the next generation of armour through to pioneering new sonar techniques that are being used on the front line. Many other examples of our work and their impact are included in the following sections of the Annual Report and Accounts.

This year has seen tangible progress with *i lab*, our major transformational change programme. Our new business reporting system was launched in late 2007 on schedule and with no major glitches – a huge credit to everyone involved. Our major construction activity (Project INSPIRE) showed tangible results as the new building at Porton Down rapidly took shape. The construction work is within budget and on time, thanks to excellent project management by our dedicated team. Many staff have now received written confirmation on their impending site moves. I and my Board colleagues are keenly aware of the potential disruption to people's lives and hope that we can continue to minimise the impact. We are also committed to ensuring that these activities do not impact adversely on customers.

In last year's statement, I mentioned the vital importance of maintaining the correct balance between the application of research and the research itself. Much of Dstl's ability to provide the necessary support to our customers is derived from research carried out years or even decades earlier. I am pleased to report that this is recognised within MOD, building on the Defence Industrial Strategy (DIS) and the Defence Technology Strategy (DTS). With appropriate investment in longer-term strategic research, Dstl will sustain its success in the future.

Dstl is subject to increasingly stringent financial pressures but, nonetheless, all key financial targets have been met in 2007/08. Careful cost control over the past few years has enabled Dstl to generate sufficient funding for *i lab* without the need to borrow from MOD. As I visit different parts of Dstl, I am constantly impressed by the focus on operational efficiency and the clear understanding of the need to deliver value for money.

This is my final statement as Chairman of Dstl since my term comes to an end in 2008. I was Dstl's first independent Non-Executive Chairman and prior to my arrival there was only one independent Non-Executive Board member. Since then, I and my colleagues on the Board have worked to establish the best ways of operating to maximise the benefits to Dstl and to our Owner. I am convinced that this Board now makes significant contributions drawing on the extensive breadth of experience of its Non-Executive Directors.

I would like to take this opportunity to thank Roger Platt who completed his six-year term as a Non-Executive Director earlier this year. He put a huge amount of time and effort into understanding Dstl's business and was particularly helpful in setting up various *i lab* projects, particularly Project INSPIRE. I would also like to thank Frances Saunders, who was formally appointed as Chief Executive in autumn 2007, for her unflagging contribution.

Lastly, but by no means least, I wish to thank Dstl's dedicated employees for their immense commitment to deliver the best possible support to our customers. Their work is frequently carried out under arduous conditions and to tight timescales. I and my Board colleagues are truly grateful for their enthusiasm and dedication.



Richard Maudslay CBE FREng
Chairman
4 July 2008

As I visit different parts of Dstl, I am constantly impressed by the focus on operational efficiency and the need to deliver value for money.



Chief Executive's statement

This has been another year of significant change for our customers and colleagues in MOD, and one where we have had to adapt quickly to make sure that we are still providing the support that they require. In parallel, we are entering the critical phase of our i lab programme and financial prudence has been essential in ensuring that we can deliver the major projects within agreed budgets.

We are now, increasingly, looking to the time beyond the i lab rationalisation activity and we are focusing on what we will need to do to achieve sustainable business success in the longer term. This then poses questions about how we should measure this success and judge whether we are making the grade. Formally tracking our performance against our annual Key Targets and our financial results is an important element and this report sets out our achievements. However, for me, it is the level of impact that we have in the world that is the key indicator of our success.

If we are helping to save lives in military operations, if we are increasingly engaged in supporting some of the most difficult decisions or providing solutions to the most challenging technical problems, then we are doing the right kind of work. You will see many examples in this report of where our work and our scientists have again made an impact when it really matters.

Growing the volume of assignments and value of work we deliver is not a goal in its own right for Dstl. But, if we are broadening our impact across Government, as well as internationally, and we are applying our expertise more widely to help deliver the UK's defence and security agenda, then we are developing our business in the right way. This has been Dstl's best year yet from this point of view, with a growing portfolio of customers and high levels of international and national co-operation.

Since we do not compete for the work we do, and only do those things that should be done within Government, there is a need to test constantly that we are as good as we need to be, and good on an absolute scale – whether in terms of technical expertise, innovation or management.

We must not let ourselves fall into the trap of being worthy but dull. Achieving the goals set by our technical benchmarking process gives us confidence that we are continuing to move in the right direction.

In the end, though, it is the users of our work and the organisations that we work with who will judge whether we are a success. In an increasingly challenging world, we need to have a relentless desire to get better and better at what we do. So, if we are continuing to grow our reputation and we are recognised as an organisation that knows what it is talking about, and can be relied on to deliver what is needed when it is needed, then we can be proud of our achievements 'in the round'. There is still more to do to reach the high standards we would set for ourselves in terms of customer satisfaction and our wider reputation and impact on society. We may never get there, but the level of recognition of our improvement by a large number of our customers is a good start.

Finally, there are all the other things we have been doing behind the scenes to deliver our i lab programme and to make sure we are fit to face the future with confidence. All of this hard work is coming to fruition and delivering new buildings, systems and ways of working that will help us to be even more agile and responsive in creating and delivering our programmes of work in the future. At the same time, we have to increase the emphasis on managing the environmental, ethical and social impact of our activities and operations, maintaining our licences to practice and building a sustainable business.

My personal thanks to everyone in Dstl who has helped to make this another successful and memorable year.



Frances Saunders
Chief Executive
4 July 2008

We are now looking to the time beyond the i lab rationalisation activity and focusing on what we will need to do to achieve sustainable business success in the longer term.



Gateway to science

Dstl is bringing scientific advice right into the heart of defence acquisition through the deployment of 14 Science Gateway posts in Defence Equipment and Support (DE&S). Science Gateways provide a direct link to the wider research programme and MOD S&T knowledge base.

The use of Science Gateways in strategic planning ensures that DE&S maximises the effectiveness of the investment in S&T. This is achieved through the development of through life and technology management plans at cluster (programme) and Integrated Project Team (project) level. Dstl's engagement with the delivery clusters (programmes) ensures that acquisition decision makers have access to the very best advice and expertise from across the organisation.

Science Gateways have helped DE&S to develop a greater understanding of the potential for S&T in programmes and extended Dstl's reach. The gateway concept is regarded by many in Science Innovation Technology (SIT) and the Equipment Capability Customer as the future model for ensuring that good quality scientific and technical advice is readily available and useful to the defence sector.

Joining the dots

The Strategic Systems programme encompasses missile defence and deterrent-related work, including systems studies, effectiveness analysis, decision support, specialist technical advice, safety, security and radiological protection. It spans most Defence Lines Of Development, such as training, equipment, personnel, logistics and infrastructure, with a total annual income of more than £15 million. Every Dstl Department is typically involved in delivering around 40 separate items for more than 20 customers as part of this programme. Complex customer relationships are involved. Strategic Systems is also closely linked in to other Dstl activities, with interdependencies that are readily visible to Dstl staff but not at all visible to the customer.

Dstl has now set up a network of interacting and mutually supportive roles to ensure the coherent delivery of advice to customers on the programme. Dstl staff were embedded in key positions in the customer community. A single programme manager ensured coherent planning and resourcing for future elements of the programme. The programme manager and programme leader led regular reviews across Dstl and with senior customers at key points in the network. This approach helped to create a coherent, prioritised programme that had impact on our customers' most important issues.



Delivering high-quality, customer-focused services and products

At the heart of whether Dstl is judged to be a successful organisation is our ability to make a real difference to our customers' most important issues. This year we identified as one of our Key Targets a number of benchmark programmes that demonstrate our high-impact contribution to MOD's key issues. These were selected on the basis of their importance to MOD and their role in reflecting the breadth of Dstl's capability and work. This section includes some of the highlights from our programmes in the past year.

SUPPORT TO OPERATIONS **Counterterrorism and counter-insurgency support**

Operational support is the highest programme priority for Dstl. The support we provide to operational theatres and to counterterrorism operations within the UK grows year on year. This has included deploying scientific staff in to theatre, supported by a 24/7 reachback facility into Dstl. In this way, our scientific advice and support has solved immediate problems and delivered solutions direct to the end-user. We have also supported a diverse range of Urgent Operational Requirements (UORs) that have enabled the deployment of new and enhanced capabilities rapidly in to theatre.

A systems approach to security

Dstl has shown how a systems

analysis of the 'terrorist kill chain' from terrorist radicalisation through to post-incident response can be used to develop a balanced plan for intervention and disruption. This understanding has enabled us to design effective security measures for complex events and venues. This systems approach has been used to support MOD and OGDs in protecting the public in the UK and our troops in theatre.

An energetic solution

Dstl scientists have played a key role in measuring the characteristics and compositions of the types of peroxide base used by improvised explosives in many recent terrorist attacks. Starting with small-scale experiments, Dstl worked with industrial partners to identify the factors that make a particular mixture explosive. This led to the safe manufacture of large quantities of explosive material that was subsequently tested in field trials. This work played a significant role in informing protective counterterrorism programmes in the wider community.

Network know-how

Dstl has pioneered the use of Social Network Analysis techniques to analyse diverse sources of information relating to insurgent groups in order to gain a much richer understanding of their composition and operation. This work has recently been recognised

with a Commendation from the Vice Chief of the Defence Staff and the Second Permanent Under Secretary of State for an 'outstanding contribution to defence'.

Rapid response

Dstl has a significant role in supporting the UK's nuclear accident response. In November, Dstl's radiation protection expertise was deployed in support of MOD and Thames Valley Police in ALDEX 07 – an exercise designed to test the UK's multi-agency response to an accidental release of radioactive material. Dstl provided advice on a wide range of public protection issues and input to ministerial, media and public briefings. In the subsequent analysis, the team evaluated the radiation-related elements and identified many of the lessons learnt.

The exercise was an excellent example of collaboration between Dstl and OGDs. It also provided an invaluable opportunity to rehearse Chemical Biological Radiological and Nuclear skills and enhance MOD's ability to respond to any potential event.

Support to decision making

Dstl provides the MOD Policy Director and his staff with a quantitative analytical understanding of the relationship between policy aspirations, required force structure and consequential resource demands. Dstl provided



the authoritative evidence for the future capabilities element of the new defence strategic guidance and directly informed the Defence Board's guidance for capability investment priorities this year. This included identifying capability gaps, areas of policy, and operational and budgetary risk. Exploratory studies have addressed a number of factors that will affect the structure of UK forces in the future. We have also continued to develop tools to help MOD better understand the Policy and Capability implications of peace support and irregular warfare operations – work that has attracted considerable international interest. Dstl has supported the MOD Development, Concepts and Doctrine Centre in updating the UK's Defence Conceptual Framework, which sets out the vision for how defence capability will support operations up to 2035. Dstl conducted analysis and experimentation, including technology war gaming, to test and validate some conceptual ideas, delivering evidence-based outcomes for the first time.

Realising Network Enabled Capability

We have continued to provide high-quality support to Network Enabled Capability (NEC) over the past 12 months. A key focus for our key customer has been to provide a

NEC perspective into the 2008 Planning Round. Utilising knowledge and expertise from across MOD and elsewhere, and working closely with our customer, Dstl helped to identify how investments in information enablers contributed to the delivery of military capabilities. As a result, senior MOD staff were able to make well-informed investment decisions. Our staff have also continued to collate and analyse the wealth of information from NEC-related research, which was made readily accessible to relevant MOD and external stakeholders.

Carrier strike

Dstl has a critical role to play in the delivery of the Carrier Strike programme. Our staff have provided robust and timely advice on operational effectiveness, technical risk, interoperability assessments and the development of concepts of operation. Operational effectiveness assessments have been completed as part of a wider analytic effort to characterise and understand the UK's future air power capability. We have also provided advice on ship-aircraft integration on critical aircraft elements and techniques such as landing aids and Short Rolling Vertical Landing. The Dstl CUTLASS simulation facility has been used to conduct vital man-in-the-loop experiments to

help develop and refine concepts of use. We have also deployed staff to the US-based Joint Program Office to provide additional technical support.

Future Rapid Effect System

The Future Rapid Effect System (FRES) programme will provide the UK Army with rapid reaction capabilities and replace ageing manoeuvre support vehicles. FRES is the Army's largest-ever land equipment programme. Dstl is part of an integrated FRES team that includes the MOD customer, the Integrated Project Team and industry partners. Our staff have contributed to fleet analysis, systems engineering, programme planning, threat assessment, risk management, and option-down selection – bringing technologists, systems engineers, analysts and military staff together from across the Laboratory. The success of this programme has demonstrated our unique ability to work effectively in close partnership with industry while also providing independent advice to MOD.

It's MAJIIC

Dstl has continued to make a major contribution to the Multi-sensor Aerospace (ground) Joint Intelligence Surveillance and Reconnaissance (ISR) Interoperability Coalition (MAJIIC) programme.



The aim is to set out standards and operational procedures to enable sharing of ISR data among the NATO member countries. This has been achieved by networking standards-compliant shared data servers in an operational test environment. Through these data servers, partnering countries contribute sensor data and are able to access tasking and output from other nations.

Dstl has world-leading expertise in the field of ISTAR (Intelligence, Surveillance, Target Acquisition and Reconnaissance) systems, including development of NATO standards to support coalition interoperability. Our staff have been instrumental in the implementation of MAJIIC on behalf of the Director Equipment Capability ISTAR. Encouraging results have led to significant interest in the programme this year and NATO has now mandated MAJIIC protocols for use in theatre. This will, for the first time, enable NATO forces to share live ISR data across a network. The programme is a notable example of research effort being pulled through to support operations directly.

DEFENCE ENTERPRISE MANAGEMENT SUPPORT **Defence Acquisition Change Programme**

The objective of the Defence Acquisition Change Programme (DACP) is 'To bring about a step

change improvement in acquisition performance through creating a more agile acquisition system and managing capability through life'. We have worked closely with the MOD DACP team in shaping the reform of the acquisition system and we are continuing to work with the Director Capability Improvement. We have provided vital support to MOD in helping to meet the challenges of Through Life Capability Management (TLCM), assisting in its implementation. We have deployed experienced Dstl staff (Science Gateways) within the relevant areas of MOD to provide them with direct S&T support. These staff 'reach back' through an extensive network of Dstl and other S&T experts to provide high-quality, integrated advice.

Support to TLCM and S&T advice to DE&S

TLCM has been identified as a key new area for Dstl. It is central to MOD's reform of the acquisition process for new equipment and capability. Using this approach, every aspect of new and existing military capability is planned and managed coherently from first concepts to final disposal. The Laboratory has provided vital support to MOD in meeting the challenges of TLCM, assisting with its implementation within the Equipment Capability Community and DE&S. Dstl staff have been

deployed within DE&S to provide direct S&T support.

Support to DTS implementation

Dstl is playing a central role in supporting MOD's implementation of the Defence Technology Strategy (DTS) and the Defence Technology Plan. Our staff have provided advice on the design of the research programme to ensure even sharper alignment with military priorities and exploitation opportunities – increasing the level of innovation in technology and its application. Dstl staff have collaborated with key players across MOD, industry, academia and overseas governments as well as providing senior staff to lead the implementation of many new initiatives, including the Competition of Ideas and Communities of Practice. The Competition of Ideas has been launched to identify and develop the best ideas in S&T to meet some of MOD's toughest technological challenges. Dstl assesses competition bids, drawing on the full range of its capabilities and identifying the best examples that merit funding by MOD. Meanwhile, the Communities of Practice initiative is aimed at improving the S&T skills base within defence. Dstl is co-ordinating Communities of Practice in areas such as signal processing, which was identified as a key UK capability in the DTS.



INNOVATIVE CONCEPTS AND TECHNOLOGY

Generic biological medical countermeasures

A generic medical countermeasure capability that provides protection against a wide range of toxic and infectious agents is an extremely challenging ongoing aspiration that cannot be met using MOD resources alone. Dstl has therefore used its scientific reputation and ability to work with the most dangerous pathogens to develop a network of partners in academia, industry and overseas government departments to address the problem. Our scientists are seeking to identify approaches that will boost the immune system, determine common virulence mechanisms and novel methods of drug delivery. Dstl is also developing models and methodologies to evaluate candidate treatments developed ourselves or by industrial or international partners.

Armoured Fighting Vehicle platform protection and survivability

The PARSIFAL research programme has accelerated the development of new armour systems for rapid entry into operational service. This focused

and fast-paced programme has provided enhanced protection against the threats currently being faced by service personnel in theatre. The programme is a good example of close engagement between Dstl, industry partners and the wider MOD community – one of the key themes of MOD's Defence Industrial Strategy (DIS). PARSIFAL has so far directly supported 12 Urgent Operational Requirements (UORs) with tangible evidence that the programme has directly increased protection levels and contributed to the safety of personnel and vehicles.

John Benjamin Prize 2008

A team from Dstl and QinetiQ was awarded the prestigious John Benjamin prize for 2008. The multidisciplinary team of researchers was awarded the prize for work on 'microstructured vapour pre-concentrators for enhanced detection of explosives'. The detection of explosives is technically challenging because most produce very little vapour. The team developed a micro electro-mechanical system preconcentrator that absorbs explosive vapour and releases it as a single burst into the detector when heated. Dstl's role was to characterise and

evaluate coatings and coated devices in terms of thermal robustness, vapour capture and release efficiencies, and innovative tests were devised to simulate real-world conditions. Test methods were also developed to create very low concentration, precisely calibrated vapour sources to demonstrate that the preconcentrator could improve the detection limits of commercial explosive detectors by an order of magnitude under realistic sampling conditions.

Material ideas

Fundamental materials research led by Dstl could herald a new generation of low-cost, high-performance armour steels. Working in collaboration with Cambridge University and industry, Dstl has developed Super Bainite Steel (SBS).

Unlike other armour steels, the properties of SBS armour are created using a new, low temperature process that enables ultra-high levels of hardness to be achieved without having to use expensive alloying additions. SBS armour is therefore able to match the ballistic performance of other armour steels that can only be sourced from overseas. SBS can be produced at reduced cost within



the UK. Following successful pilot trials, directed by Dstl in partnership with industry, the first plates of SBS armour were delivered to MOD in August 2007.

Saving time, saving lives

In the event of a biological attack, rapid diagnosis of infectious agents is required to identify the best treatment with fast intervention being key to saving lives. Diagnosis of infection traditionally involves isolating and growing the microbe before performing tests to identify the agent. This is time-consuming and can be dangerous.

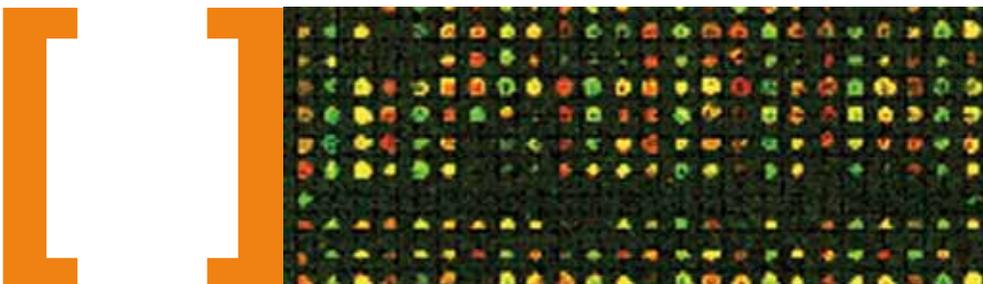
On behalf of the Home Office, Dstl worked with the Health Protection Agency and the London School of Hygiene and Tropical Medicine to develop a microarray that can detect any potential pathogen. This new array interrogates the potential pathogen's genetic material, providing more detailed information about its resistance to any potential treatment.

By examining databases of genetic information, Dstl has identified probes that could respond to all known toxins, antibiotic resistance genes and a wide range of virulence factors. Using a fluorescent dye in conjunction with the microarray, any agent could in

theory be identified by inspecting the binding between the pathogen and the array. The array has already been tested on a range of pathogens and the results are very encouraging.

Programme management

Managing a complex programme of work means that we must develop a detailed understanding of our customer priorities and needs. This year, we have developed an even more effective customer interface that enables us to formulate coherent programmes of work that achieve the greatest possible impact with the highest standards of technical quality. We have established account management as the cornerstone of our customer interface. Our Senior Programme Leaders are now the primary points of contact for key customers, helping us to deliver maximum impact on major issues. We have improved Dstl's external communications, ensuring that our customer community is aware of the breadth and range of our expertise. Last year, we launched our customer communications strategy. This identifies key messages that must be conveyed to our customer base, and activities that will help us to communicate these effectively.



Celebrating technical excellence

In September, around 300 staff attended the Dstl Internal Symposium at the University of Reading to celebrate Dstl's technical achievements. Staff presented their work through posters or oral presentations and the theme was 'Innovation in a Changing Environment'. There were opportunities for staff to demonstrate the many ways in which Dstl can adapt to meet the needs of MOD and wider Government.

A number of eminent guest speakers from MOD and industry took to the stage at the three-day event. Speakers included Lord Drayson (the former Minister of State for DE&S), Professor Roy Anderson (the former Chief Scientific Adviser for MOD), Trevor Bayliss (the famous inventor) and Paul Stein (MOD's S&T Director).

Delegates participated in syndicate exercises on a range of S&T topics, including counterfeit bank notes, future fuel supplies and organisational agility. Working in inter-disciplinary teams gave delegates the opportunity to build networks and celebrate success across Dstl.

Developing our knowledge, our people and our capabilities

Our success is critically dependent on our people, the depth and breadth of our knowledge and the quality of our technical capabilities. Sustaining the capabilities we need now while developing those needed by customers in the future presents a real challenge. This year we have been successful in recruiting people to fill our specific current needs identified while also providing our staff with the training they need to fulfil their potential and better meet the requirements of our customers. This was achieved by developing a better understanding of our current workforce and identifying current and predicted gaps.

Adding to our strengths

Our HR team has worked closely with managers at local level to identify and manage recruitment needs. We have run focused recruitment campaigns and linked these with a higher media profile. We have welcomed more than 300 new people at all levels into the organisation. This has included a greater number of mid-career recruits as well as new graduates. Our new centralised recruitment team has enabled us to create a smoother, faster service. This has reduced timescales and costs, ensuring that we can meet the needs of our customers.

Building our capabilities

In order to understand our current capabilities better, we have conducted a full assessment of our people's individual technical competencies over the past 12 months. We can now use this to identify and bridge any gaps in our ability to meet our customers' requirements. We have also assessed the capabilities of our groups using an updated technical benchmarking process, which enables us to identify key areas for development and measure progress. We are committed to developing the skills of all of our staff and improving the quality of our products and services. The Laboratory offers an impressive range of activities to support career and professional development. These include Fellowships, technical training, personal and management skills training, secondments, mentoring, chartership, further education and professional development activities. This is part of Dstl's commitment to the provision of ongoing career development. Developing systems skills is a growing priority for MOD and Dstl. Systems skills cover areas such as customer awareness, technical and functional expertise, creativity, communication skills, teamworking and understanding of the external environment. These skills help



people to think about problems in a broad, multidisciplinary manner and will prove essential to the delivery of cross-capability expertise to meet MOD requirements more effectively in the long term.

This year, we introduced an Accelerated Systems Skills Programme in anticipation of increased customer demand in this domain. The first group of 13 staff is already making good progress on the programme and a further 20 people will join the programme this year.

The Scheme for Technical Events and Professional Support (STEPS), which is run by new starters for new starters, continues to flourish with many exciting events and initiatives. The scheme provides excellent networking opportunities and the chance for experienced members of staff and military advisers to meet and mentor our newest recruits.

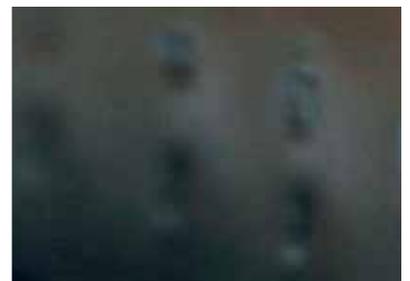
This year, groups from STEPS have worked on some of the most important issues for Dstl. For example, a STEPS Specialist Technical Group Event was designed to address Through Life Capability Management. In line with our strategy for pursuing important external links, STEPS worked with QinetiQ's new starters forum on an inter-organisational conference that also involved representatives from academia. The theme of the event was Looking to the Future.

Recognition and enhanced status for staff who have made outstanding technical contributions to Dstl continues to be of critical importance and we relaunched the Dstl Fellowship scheme this year.

'Fellowship' has now been established as the principal role for Dstl's top, most influential scientists and engineers – providing a clear pathway to the most senior levels in the organisation through a non-managerial route. At the end of the year, Dstl had 33 Fellows and 10 Senior Fellows.

We also have an Associate Fellowship scheme that provides outstanding young scientists with the opportunity to develop their research ideas. The scheme funds up to 50 per cent of a scientist's time for two years to pursue a programme of high scientific merit. A further six scientists were awarded Associate Fellowship during the year, bringing the total to 11. The aim is to encourage scientists and engineers to aspire to Fellowship in the longer term and maintain our technical strength.

Staff secondments provide an excellent way of refreshing and building skills and expertise. In 2007/08, a total of 125 staff took part in secondments in industry, OGDs and other parts of MOD. Dstl also welcomed 35 inward secondments.



Building effective, trusted partnerships

Forging successful partnerships is a key long-term objective for MOD, as outlined in the Defence Industrial Strategy (DIS) and the Defence Technology Strategy (DTS). It is vital for industry, academia and the public sector to work together to create the winning advantage for our Armed Forces and the wider security environment. We in Dstl must therefore continue to act as an effective, trusted partner and provide independent advice to MOD and other areas of Government.

Over the past year, we have continued to establish closer links with industry through Defence Systems Partnerships (DSPs) and other MOD/industry arrangements. These partnerships, which are designed to improve our systems understanding and encourage collaborative working, are already helping to identify solutions to MOD's most complex capability and systems engineering challenges.

Co-operation agreements with key partners such as QinetiQ and Thales are now fostering greater strategic understanding between our organisations and closer links between our staff. These agreements enable us to share our knowledge and skills to solve the most difficult challenges facing our customers.

Staff secondments, both to and from industry, are continuing to grow in number. Last year, we focused on additional staff interchanges with systems companies, such as Thales and BAE Systems, which help to build

expertise in this vital area. Dstl staff have also provided technical support to a number of MOD initiatives, such as the Competition of Ideas, which has forged closer links with new research suppliers, including Small- to Medium-sized Enterprises and university groups. These interchanges have enabled staff from many different organisations to work in each other's laboratories in a truly collaborative way.

International collaboration

Our international links continue to grow in strategic importance in terms of building multi-national interoperability with our key allies and, increasingly, in helping to spread the financial burden of high-value programmes. International Research Collaboration (IRC) also provides access to a wider S&T base, supports facility sharing and promotes staff interchange.

In the past year, Dstl's contribution to IRC has been recognised through The Technical Cooperation Programme (TTCP) – a five-nation defence forum that includes Australia, Canada, New Zealand, the UK and the United States.

Team achievement awards have been made to Dstl staff for their work in a wide range of areas, including materials, guided weapons and Synthetic Aperture Radar technologies. A Chief Scientist from Dstl has also been awarded a TTCP individual award for his significant personal contribution in the materials technologies area.

Entente cordiale

In November 2007, Dstl played host to a highly successful Anglo-French technical conference at Porton Down. This involved personnel from France's DGA (the government's armament procurement agency) and representatives from across MOD. The aim of the conference was to share expertise and knowledge and provide an opportunity to discuss key issues such as benchmarking the quality of our technical capabilities and developing them in a complementary manner. Delegates agreed to take forward collaborative work on modelling and simulation, missile technology and an early-career scientist exchange scheme. In the longer term, opportunities to build mutual understanding and burden sharing have the potential to deliver significant benefits for both countries.



Working with industry

Open Systems Architectures (OSA) aid the integration of military systems and will ensure that future capabilities are not dependent on dated or even obsolete technology.

Working closely with a number of industrial organisations, key representatives from academia and other MOD branches, Dstl is playing an important role in developing the way forward for OSA in defence. Under the auspices of the National Defence Industries Council, Dstl is chairing a working group on systems engineering and open architectures. Through this group, Dstl has developed a draft 'Charter for Adopting Open Systems in Defence Acquisition'. Our staff have applied their understanding of MOD's capabilities and processes and established strong links with the industrial supplier base to help drive developments in this complex but very important area.

Powering ahead

Dstl has built a long-standing and productive track record of research collaboration with a number of universities, including the University of Southampton.

Southampton was one of five universities selected to pilot a Co-operative Research Centre model for research collaboration with Dstl. Staff from the university are also involved with MOD's Defence Technology Centre programme.

Scientists from the two organisations are now looking to develop novel technology solutions to power future military systems. The direct borohydride fuel cell programme aims to develop devices that use cheaper fuel types and produce no harmful emissions. These fuel cells could potentially produce long-lasting, compact sources of energy and replace existing batteries. Scientists are also working on an innovative solution to provide electrical power for micro air vehicles. This uses the airframe itself, in the form of aluminium foam, as part of the power source. This technology has the potential to extend the flying time of these vehicles from 20 to 60 minutes.

As part of Dstl's emerging strategy for industrial and academic collaboration, the Laboratory will continue to strengthen and broaden its relationships with key universities, such as Southampton.



Protecting and exploiting our Intellectual Property (IP)

The knowledge created through the public investment in Research and Development in universities and Public Sector Research Establishments (PSREs), such as Dstl, is a major asset for the UK. It is Government policy to exploit knowledge generated from public sector research for the greater benefit of the country.

Formed in 2005, Ploughshare Innovations Ltd is Dstl's technology management company, charged with exploiting our technologies in non-defence markets.

Ploughshare's progress against its principal financial targets continues to be encouraging. In 2007/08, Ploughshare signed a further nine new licence agreements. Income from these agreements rose from £283,000 (in 2006/07) to £450,000. Expectations are for continued growth in up-front payments, annual fees and royalties.

Furthermore, colleagues in other parts of MOD now look to Ploughshare for advice and support in promoting the exploitation of other defence technologies. Contracts with the Atomic Weapons Establishment and with MOD brought in a further £110,000 from licence sign-up fees and consultancy services.

During the year, Ploughshare set up two new spin-out/joint venture companies (see table on page 17). A further two are close to launch and others are in the pipeline.

As part of the all-important stimulation of IP creation, Dstl paid £10,759 in awards to staff for patentable inventions under the 'Rewards to Inventors' scheme. Awards under the scheme for successful commercialisation are expected to exceed £140,000. Payments were made to 31 Dstl inventors from commercialisation income generated by Ploughshare. Ploughshare also invested a further £100,000 in proof-of-concept work for Dstl ideas, bringing the total invested so far to £466,000.

In 2007/08, 40 patent applications were published, 27 patents were granted, 11 applications were filed and a further 26 are being prepared. This sustains Dstl's track record of having 20 to 30 new patents granted each year and keeps the organisation at the forefront of creative PSREs.

Ploughshare has also completed a rigorous review of Dstl's portfolio of patent families. A total of 36 patents with low commercial potential have been abandoned, and a further 30 patents have been assigned to other parties. This has saved Dstl approximately £90,000 a year in IP costs.

The transfer of Dstl technologies to the market place has been opened up in two key ways. Firstly, a broader range of seedcorn and venture capital investors are now involved in Ploughshare-mediated opportunities. This is helping to spread the risk and enhance the

inflow of commercially informed advice.

Secondly, the activities of Dstl's patent attorneys and Ploughshare staff have positively raised awareness about IP across Dstl. Inventors from Dstl are seeing their creative ideas exploited in new spin-out companies or taken up under licence by industry.

On all fronts, we can now demonstrate a much more effective IP protection and technology transfer operation, and one is that arguably unique among PSREs.



Rapid results for diagnostic tool

Enigma Diagnostics Ltd was launched in 2004 to develop Dstl's rapid genetic testing technologies in civilian and military markets. Today, the company employs 24 staff with a portfolio of more than 45 patent families and applications.

Enigma's first product, known as Enigma FL, is a portable, fully automated DNA detection system developed in collaboration with MOD for the rapid identification of biological warfare threats on the battlefield.

Enigma is developing the technology to produce unique and proprietary sample preparation and thermocycling technologies for the clinical diagnostics, defence and homeland security, and veterinary/pandemics diagnostics markets. Enigma FL's simplicity, sensitivity and speed produces the rapid 'gold standard' laboratory results required in these markets.

In the past year, Ploughshare Innovations has extended Enigma's licence to exploit the IP in all fields. Enigma is also developing rapid diagnosis for influenza through a €3 million award from the European Commission to the Ranger Consortium. It has also created a reliable diagnostic system for the UK National Chlamydia Screening Programme.

More recently, the company has signed licence agreements with Applera Corporation – a major player in the biomedical diagnostics industry with controlling patents over the use of real-time polymerase chain reaction in DNA analysis. Enigma now has the freedom to exploit its range of detection products commercially.

Thanks to close collaboration with Ploughshare Innovations Ltd and Dstl, Enigma is already forging a reputation as a leading player in the genetic testing market.

Ploughshare spin-out/joint venture companies (at March 2008)

Company	Technology	Market application
Spin-out/joint venture companies that have been sold or wound up		
Acolyte Biomedica Ltd (sold in February 2007)	Adenylate Kinase (AK)	Diagnostic systems for clinical microbiology (eg MRSA)
Leading Light Scientific Ltd (IP assets licensed to 3M; Ploughshare relinquished control in December 2007)	Luciferase	Biotech reagents
Existing spin-out/joint venture companies		
Alaska Food Diagnostics Ltd	AK/Phage and AK alone	Food pathogen testing across the supply chain
Enigma Diagnostics Ltd	Rapid polymerase chain reaction	Rapid detection of animal diseases, genetically modified entities and clinical pathogens
Porton Plasma Innovations Ltd (P2i)	Pulse plasma coatings	Repellent coatings for medical devices, automobile components and consumer-wear markets
Remo Technologies Ltd	Telemetry devices	Implantable and surface-mounted telemetry devices
ProKyma Technologies Ltd	Use of ultrasound to handle micro-particulates	Sample preparation for detection and rapid blood grouping
Sherwood Therapeutics Ltd (joint venture with Nottingham University)	Wound-healing enzymes identified in maggots	Accelerated wound healing and immuno-modulation in healthcare
New spin-out companies set up by Ploughshare in 2007/08		
Sub-sea Asset Location Technologies Ltd (SALT)	Sonar reflective materials	Underwater markers
Claresys Ltd	Covert camera technology	Surveillance, security and remote survey



Creating organisational excellence

The integrated laboratory (i lab) programme, which sets out Dstl's major transformational change plan, was designed to unite the Laboratory and ensure that we deliver the complete solution to our customers' really important problems through the excellence of our people, our management and our integrated expertise.

Dstl's plans to rationalise onto three core sites will help to deliver these objectives. We have now entered the final phase of this part of the programme, with the construction of the new building at our Porton Down site and the refurbishment of buildings at Portsdown West now well under way. This will provide state-of-the-art laboratories and offices for our people. The new building at Porton Down has achieved an 'Excellent' rating through the Building Research Establishment Environmental Assessment Method – an environmental impact rating rarely achieved in Government buildings.

Our overall aim is to deliver outstanding business results while operating to the highest standards of economy, efficiency and effectiveness. To sustain this in the long term, we are introducing new working practices, creating an enhanced working environment

and implementing simpler, integrated processes to underpin our delivery.

Another key element of this plan is to create a working environment that motivates and enables our people, focuses on the delivery of quality outcomes and is sensitive to the impact we have on the environment and on the wider community. This year, we have worked with a cross-section of Dstl staff to identify the key factors that will help our people to deliver their work really effectively. Being able to articulate these 'conditions for success' and ensuring that these are in place has laid the foundations for making Dstl a great place to work.

Fundamental to creating the right environment is our approach to safe working, which is a top priority for everyone in Dstl. We have significantly improved our risk assessment methodology. Incidents are now reported using 'accident potential' rather than 'actual impact', which has enabled us to identify potential accidents before they happen and take steps to reduce the risk. Further improvements in our safety culture will remain a top priority in the coming years.

Having the right leaders in place is also critical to our future success and will ensure that our people continue to contribute their best. In the past year, we have delivered a new leadership and management development programme for Group Leaders and Team Leaders and identified key areas for development of the most senior managers in Dstl. The success of this approach has already been recognised in the results of our staff survey with an eight per cent increase in the proportion of staff who have confidence in the leadership of Dstl.

Dstl is committed to fair and equal treatment and opportunity in its employment practices and will meet the provisions and requirements of UK and EU laws and directives. Dstl will recruit, reward, train and develop employees on the basis of merit and ability. No employee or job applicant will be disadvantaged on grounds of disability, race, colour, religion, ethnic origin, age, sex, sexual orientation or marital status. Our commitment to continuous improvement in all that we do will ensure that we have the right environment to be really successful in the future.





Corporate Social Responsibility (CSR)

Dstl is committed to implementing policies and approaches within its business to address the organisation's wider environmental, ethical and social responsibilities. Dstl is already doing much to deliver a comprehensive CSR programme, including environmental management, education outreach and charitable giving. Progress in this area was reflected in the 2007 annual staff survey in which 80 per cent of staff agreed that Dstl takes its responsibility to the environment and society seriously.

Community and workplace

Dstl's educational outreach activities go from strength to strength. We now have more than 200 science and engineering ambassadors – an enthusiastic, dynamic group of people of all ages from across Dstl who organise hands-on science activities in schools and colleges close to our sites. This year we have increased the number of primary and secondary school pupils involved in these activities to more than 3,500. We regularly receive positive feedback from parents, teachers and students on these activities, which play a crucial role in inspiring the next generation of scientists, and engineers. Throughout the

year, we have raised the profile of ambassadors, and we now have a waiting list of staff wishing to join the scheme. Dstl encourages staff to take part in fundraising activities. Charitable activities provide an opportunity for the whole organisation to pull together and raise money for a common cause. In 2007/08, our main efforts focused on Red Nose Day, Jeans for Genes and Hope for Heroes along with a number of other good causes.

Environment

Portsmouth West is the first of our sites preparing for certification to the international standard ISO14001: 2004 for environmental management. Over the past few months, we have completed stage one and two assessments. These assessments identified one major area for improvement, which will be addressed over the coming months before a final verification visit in October. Once completed, we will seek certification for all of our sites. Dstl has also been awarded accreditation to The Carbon Trust's Energy Efficiency Accreditation Scheme. This is a significant achievement and has been awarded ahead of the target date at the end of 2009.

Green transport

Last year, Dstl appointed a Travel Co-ordinator dedicated to encouraging staff to travel to work by sustainable means and to manage the likely increase in traffic around the sites due to staff relocation. This has included introducing additional local bus services – giving staff the opportunity to leave their cars at home and travel to work using public transport.

To help us identify how to encourage people to travel in more sustainable ways, we conducted a staff questionnaire on travel behaviour in early 2008. We have also been working with local authorities on infrastructure improvements for cyclists as well as improving cycle storage facilities at our core sites. Additionally, we will be launching a Dstl-wide subsidised cycle purchase scheme over the next year. The number of dedicated car-share spaces in the site car parks has been extended and we are planning to launch a new car-share scheme in 2008. In 2007/08, Dstl staff took part in a number of commuter challenges, including the Portsmouth City Challenge. Overall, these events have saved around 4,000 car miles by encouraging staff to travel to work by environmentally friendly means.

Hands-on science

More than 200 children from Vigo Junior School in Hampshire took part in a fun science day organised by Dstl in early 2008. The schoolchildren donned night vision goggles, measured how many bacteria were on their hands and toured a state-of-the-art helicopter. The event was designed to inspire the children's interests in science, technology, engineering and maths by making the subjects fun. Workshops covered a wide range of subjects such as 'science for the soldier' and 'aerodynamics' as well as a liquid nitrogen show using a frozen banana. Dstl collaborated with a number of different organisations on this event, including the National Health Service, QinetiQ and the British Dragonfly Society.



Statement by Dstl Trades Unions

The ongoing change programmes affecting Dstl have created fresh challenges in maintaining good relationships between management and staff. These developments have increased the level of activity for the Trades Unions (TUs) and have led to some notable successes although there have been a few disappointing outcomes in some areas. These are discussed in more detail in this statement.

i lab

Dstl's plans to consolidate its activities onto three core sites are progressing under the i lab change programme. The relocation of such a large proportion of staff has raised many issues for those concerned. TU officers continue to support staff affected by relocation activities by encouraging management to use good policies and practices and by assisting members directly. The TUs are encouraging staff to work with Dstl's On The Move team and have helped several members through the process of seeking exemption from relocation for personal reasons. Management has appreciated the contribution that the TUs have made to balancing these difficult issues.

Pay

The four-year agreement negotiated in 2005 has delivered a period of relative stability at a time when public sector and civil service pay has been in a state of flux. However, there have been problems with the system of assessment and pay calculation and many staff are unhappy about the

process. Pay Project 2009 has been launched to explore options for pay and reward from next year onwards. The TUs have been encouraged by the open and constructive way that management has involved the TUs in the project, with national TU Officer participation on the main Pay Board. Although this is separate from the formal negotiating process, it has encouraged a frank debate on the issues concerned. The consensus is that we need to simplify the existing system and reduce progression timescales.

Careers

The TUs have supported efforts to transform career opportunities since many staff feel that career paths are less clear for technical posts than for management roles. The revised levels framework will, in part, address these concerns. While efforts have also been made to provide staff with tools to support career planning, communication to staff could have been improved. The Group Leader and Team Leader transition process has continued and, in some areas, the outcome has adversely affected morale.

Health and safety

The TUs have continued to work closely with Dstl's management to help maintain a safe working environment and improve the safety culture. The reform of Dstl's Safety, Health, Environment and Fire (SHEF) management structure, the more integrated committee structure and the positive steps taken by Dstl to

encourage greater consultation has resulted in some encouraging changes. The TUs share Dstl's desire to improve the approach to some aspects of safety management, and the TUs also recognise that positive steps are being taken to address these issues.

Employee relations

Aside from formal consultative processes, Dstl took positive steps to engage with the TUs through two events intended to create a more effective dialogue between TU representatives, Dstl's HR team and managers. On balance, this was a helpful initiative that resulted in some constructive dialogue.

Compared with many other organisations, Dstl is a good employer and management tries to work with staff in the vast majority of cases. However, in areas affected by relocation plans, morale is more brittle and has suffered in parts of the organisation where staff are facing difficult personal decisions about the moves. Change programmes have increased the need for better consultation and communications, which have taken effect in many cases. However, in some cases, better communication is needed.

Summary

This has been a busy year for the TUs, with a significant increase in the need to support individual members – partly arising from discontent with relocation activities. The year has also seen an increase in the level of consultation, which is appreciated.



Financial highlights

The past 12 months have seen the i lab programme gather pace and the introduction of a new financial system – both of which have called significantly on financial resources. During this period of change, Dstl has continued to perform robustly while still keeping staff charge rate increases below inflation. The Trading Fund's turnover rose from £366.8 million (in 2006/07) to £378.9 million. Group turnover amounted to £379.9 million. This strong performance reflects the continuing confidence placed in Dstl by its customers – even in a period of fiscal constraint.

Work carried out for MOD increased by more than five per cent during the year, although this was partially offset by a modest reduction in work for OGDs and non-Exchequer customers. This reduction reverses the trend of increases in non-MOD work in recent years, although the level is still eight per cent ahead of our position two years ago. Group turnover growth reflects the fact that Ploughshare Innovations Ltd is in its third year of operation and has completed an equity sale in the past 12 months.

Dstl experienced a net outflow of cash during the year amounting to £24.8 million (excluding the dividend payment). This outflow is the result of significant sums being expended on the construction of new facilities at Porton Down and Portsdown West and the introduction of a new finance system. Monitoring of the Balance Sheet has continued throughout the period. This has ensured that cash does not get tied up and interest receivable has been maximised. Cash and cash equivalents on the Balance Sheet fell by £27.8 million, although cash balances remained positive throughout the year. Cash expenditure on fixed assets was £33.1 million (2007: £16.1 million). The bulk of this was linked to the capitalisation of costs for Project INSPIRE with the balance being the acquisition of equipment to maintain Dstl's position at the leading edge of technology.

During the year, Dstl earned interest amounting to £4.6 million from surplus

funds being placed on the money markets with HM Treasury-approved institutions. The increase from last year reflects the improved cash position at the start of the period and higher interest rates than in the previous year. The level of Government funds, represented by the Group Balance Sheet value, increased by £23.0 million to £265.6 million, primarily due to the £15.3 million retained profit for the year. A dividend of £3.0 million (2007: £3.0 million) will be paid. Charitable donations of £300 have been made during the year. The Group's Return on Capital Employed (ROCE) was 5.3 per cent (2007: 8.1 per cent).

Credit payment policy and practice

Dstl's policy is to make payments to suppliers within Government guidelines that comply with the requirements of the Late Payment of Commercial Debts (Interest) Act 1998. During the year, Dstl paid 99.25 per cent of invoices within the agreed credit period on receipt of an undisputed invoice or date of confirmation of receipt of an acceptable service. Trade creditors were equivalent to 14.6 days' purchases during the year.

Transition to International Financial Reporting Standards (IFRS)

In March 2008, HM Treasury announced a revised date for the adoption of IFRS for the public sector and it will now be introduced from 2009/10. Therefore, the accounts for 2008/09 will be the last based on UK GAAP (General Accepted Accounting Practice), although 'shadow' IFRS accounts will be produced for 2008/09 in accordance with HM Treasury guidelines.

Dstl is currently assessing the effects of this change and the full impact on the accounts has not been quantified.

Provisions

The accounts include a provision for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear obligation to act, resulting in the transfer of economic benefits. This and a provision for dilapidations are the only

provisions held and amount in total to £5.5 million. Details of all provisions are included in note 16 to the accounts.

Financial risk and Treasury management

The Treasury function is a centralised service and its role is to monitor the cash flow and future cash requirements of the business on a daily basis. Funds that are not immediately required for operational purposes are invested with HM Treasury-approved institutions. The function does not operate as a profit centre and the undertaking of speculative transactions is not permitted.

The main financial risks to Dstl are the availability of funds to meet future business requirements, particularly in the medium term as the organisation restructures, and the risk of default by counterparties to financial transactions (credit risk). To a lesser extent, there is an exchange rate risk associated with certain transactions designated in foreign currencies.

Funding and liquidity Dstl finances its operations from retained profits linked to the ability to borrow funds from MOD. The objective is to ensure continuity of funding. The policy is to minimise any potential borrowings from MOD by careful planning and ensuring adequate funding is in place before commitments are taken on board. Regular contact is maintained with MOD to plan and agree any borrowing requirements.

Credit risk The objective is to reduce the risk of loss arising from default by parties engaged in financial transactions. The risk is mitigated to a large degree by the fact that more than 86 per cent of Dstl's turnover is with MOD. All non-Exchequer parties are credit checked, prior to contract agreement, and are regularly monitored.

Foreign currency risk Certain contracts are quoted in foreign currencies and it is Dstl's policy to minimise the exchange rate exposure as far as possible. To achieve this, most Dstl contracts include a clause that allows for the price to be revised if the relevant exchange rate fluctuates by more than 2.5 per cent during the life of the contract.



Financial outlook

The next 18 months are critical in terms of delivering the site rationalisation programme while also maintaining delivery to customers and managing cash flows within agreed limits.

An operating loss is expected in 2008/09 due to transition costs associated with non-capital infrastructure investments and the relocation of staff and equipment. This has always been expected and will not constrain the scale or jeopardise the affordability of the programme.

Funding and investment

Following another successful year of operation, Dstl's cash balances are greater than planned and the forward investment plan is entirely fundable from retained reserves. The major elements of this plan remain the completion of the new office and laboratory building at Porton Down, the refurbishment of Portsdown West offices and the installation of network infrastructure for these sites. Significant non-capital expenditure will be focused on the relocation of staff and desktop IT equipment renewal.

Other planned major investments involve essential renewal and upgrade of the Dstl estate, particularly specialist scientific facilities that underpin key elements of Dstl's research work for MOD and are subject to environmental and safety constraints. There is also substantial ongoing investment in the IT infrastructure to provide improved networks with greater operational resilience. This will reduce business continuity risks and increase data

security, external connectivity and operational flexibility. While current investment plans are financed from accumulated reserves, a proposed restructuring of Dstl's balance sheet will result in refinancing by means of a loan from MOD. While this has little short-term impact on net cash flows, it potentially increases the average cost of capital to Dstl and may reduce investment agility in the future.

The future challenge

The success of the site rationalisation programme can be measured only once current sites have been vacated, savings have been realised, and new ways of working have delivered the expected efficiencies. Ongoing investment in leadership and technical capability development will ensure that Dstl has the skills and commitment to turn this vision into reality.

Agile contract frameworks

In 2007/08, we have negotiated an updated Terms of Business Agreement, which will be implemented alongside a simplified high-level contract structure for the core research programme. This will make it increasingly easy for customers to do business with Dstl while minimising administration, working capital and payment cycles. The use of large overarching contracts will also improve the control of budgets and forecasting. It will also provide coherence across our programme of work and enhance our ability to respond to changing demands.

This will deliver benefits in terms of

managing less volatile cash flows and increasing the focus on the pace of delivery. Funds can be directed to the areas of greatest impact, and more management time can be devoted to maximising the overall value of the output through prioritisation of tasks.

External factors

Forward financial plans are underpinned by an assumption of a relatively stable income stream and predictable profit margins. Both factors are subject to policy changes beyond Dstl's control, driven by Government or MOD, and a relatively small change in customer budgets can have a disproportionate impact on Dstl's profitability.

We remain alert to changes driven by organisational and budget pressures across MOD, and seek to anticipate these changes by maintaining close contact with key stakeholders.

Financial performance will be maintained through tight control of discretionary expenditure and by ensuring that all new investment is supported by realistic business cases with customer commitment to future income streams.

Moving forward

Dstl continues to achieve its headline financial success factor of a sustainable average ROCE of at least 3.5 per cent. We also have an affordable investment programme, which will deliver site rationalisation and infrastructure renewal over the coming years. The organisation is in a strong position to deliver better value for money with an increased focus on delivery and impact.



Performance against MOD Key Targets 2007/08

Customers

- 1 Achieve a level of overall customer satisfaction in our delivery of at least 76.9 per cent by the end of 2007/08.

This was the final year in this three-year target. The 2007/08 overall customer satisfaction survey score for service provision was 73.5 per cent, which is lower than last year's score and below the target set in 2004/05. Despite this, analysis of the detailed results reveals that customer satisfaction with Dstl remains high, with 81 per cent of respondents stating that they are satisfied or very satisfied with the level of service.

A total of 28 per cent of respondents stated that the level of service had improved this year with 64 per cent indicating that it had remained the same. The relative lack of sensitivity in the survey to these positive factors has highlighted the need to review our customer satisfaction process and metrics. To address this, we have instigated a review of our customer satisfaction instrument. This will enable us to define a more sensitive measure and gain a greater insight into the factors affecting our customers, helping to target areas for improvement and measure the success of internal change programmes.

- 2 Deliver at least 90 per cent of all projects to time and to budget. Achieved. This year, Dstl completed 940 projects. Of these, 876 were completed to time and to budget with no expected/anticipated customer issues. This represents an achievement of 93 per cent against the target of 90 per cent.

- 3 Deliver high-quality outputs that have impact on MOD customers' benchmark programmes.

Achieved. Dstl has delivered the planned high-quality outputs across the spectrum of benchmark programmes. Although some issues arose in one of the programmes, these were effectively managed through engagement with the customer.

Capability

- 4 Ensure that at least 80 per cent of technical capability groups assessed as being in the lowest quartile in 2006/07 achieve assessments in 2007/08 that increase their average scores by at least one quartile.

Achieved. The 17 capability groups from 2006/07 that were assessed as being in the lowest quartile were reassessed in 2007/08 using the same process and criteria. Fifteen of these capability groups (88 per cent) increased their average scores by at least one quartile – thereby exceeding Dstl's Key Target of 80 per cent.

- 5 Increase the value of strategic co-operations with companies by negotiating two new co-operation agreements and identify and initiate interactions with four new university capabilities in priority technologies, as outlined in the Defence Technology Strategy (DTS).

Achieved. The value of strategic co-operations has been increased during the year through strategic liaison meetings, joint training activities and an increased number of targeted staff exchanges. During 2007/08, we have negotiated new industrial co-operation agreements

with two companies and identified more than four new high priority technical areas where we have initiated interaction with new university capabilities.

Results

- 6 Achieve the necessary key i lab programme milestones so that, by October 2007, Dstl will:

- issue posting notices to staff moving to Porton Down in 2008
- complete implementation of the integrated Corporate Application System (iCAS).

Achieved. Posting notices were issued, at the start of October, to all staff moving to Porton Down in 2008. The iCAS system was successfully rolled out across the organisation in 2007.

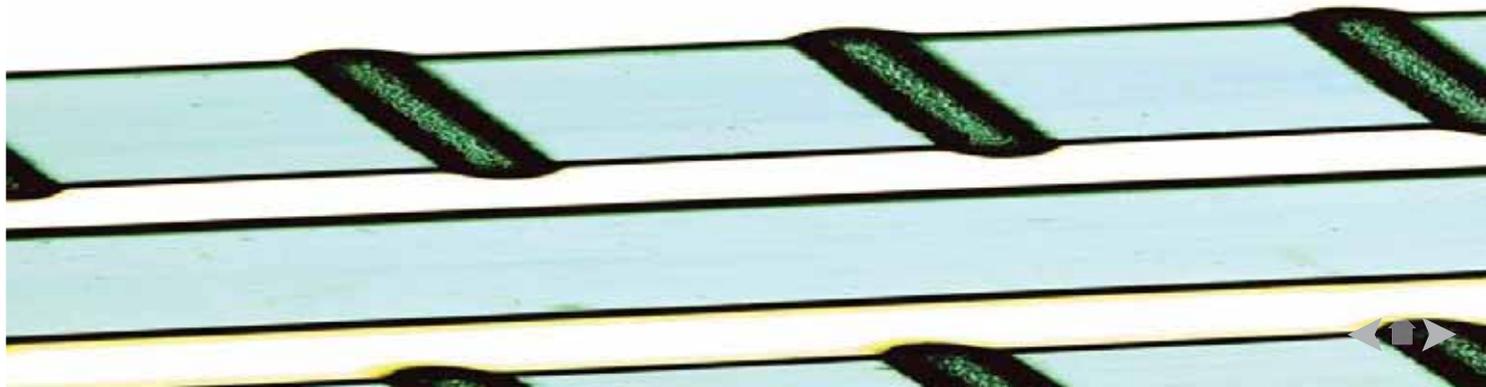
- 7 Deliver an improvement (per Full-Time Equivalent member of staff) of 0.47 per cent in direct hours and £29.05k of overhead costs.

The target for improvement in direct hours per Full-Time Equivalent (FTE) member of staff equated to achieving a direct utilisation of 1043 hours/FTE. The result for last year was 1033 hours/FTE due to utilisation being adversely affected by headcount shortfalls. Despite missing this target, output was sustained and profit was still achieved at corporate level.

The target for controlling overhead costs was achieved at £27.3k per FTE.

- 8 Achieve an average ROCE of at least 3.5 per cent over the period 2004/05 to 2008/09.

Achieved. The ROCE for last year was 5.3 per cent. Dstl therefore remains on track to achieve this five-year target.



MOD Key Targets 2008/09

MOD's Key Targets are used to define Dstl's success criteria and provide assurance that we are performing effectively. These targets are focused around the most important aspects of our business and are used to measure how effectively we are delivering against the Critical Success Factors (CSFs), as outlined in the Corporate Plan and described below.

The Key Targets also enable us to develop consistent business plan targets and define our objectives for the coming year. These targets are the fundamental building blocks for our planning and reporting activities that provide overall strategic direction for Dstl's management, and assurance, to our Owner and Parliament, that we will meet customer requirements.

Dstl's CSFs

- **Customers – the relevance, impact and technical quality of our work**
 - Relevant 'services and products' that are aligned with changing customer needs and priorities.
 - Delivery of high-impact programmes and projects to consistently high standards while maintaining 'value for money'.
 - Excellent technical quality as assessed by peer review or benchmarking wherever possible.
- **Capability – availability of internal, and access to external, skills and knowledge**
 - The right number of committed

and motivated people with skills and knowledge at the leading edge of defence and security S&T.

- An improving network of partnerships and contacts with leading S&T and defence suppliers in the UK and overseas.
- Continuing investment in, and management of, the right state-of-the-art facilities, tools, models and information.
- **Reputation**
 - A positive reputation for partnership, authority of staff, credibility of work, integrity and independence from suppliers' interests.
- **Results**
 - Robust, efficient and sustainable financial and business performance.

For 2008/09, we have developed five Key Targets that will demonstrate performance against our CSFs. Progress against these will be reported on a quarterly basis with a target to complete them by the end of the financial year. These are:

Customers

- 1 Deliver high-quality outputs that have impact on Dstl's MOD customer's 10 benchmark programmes.
- 2 Deliver at least 90 per cent of all projects to time and to budget while maintaining the high level of customer satisfaction (an average score of seven or above for the

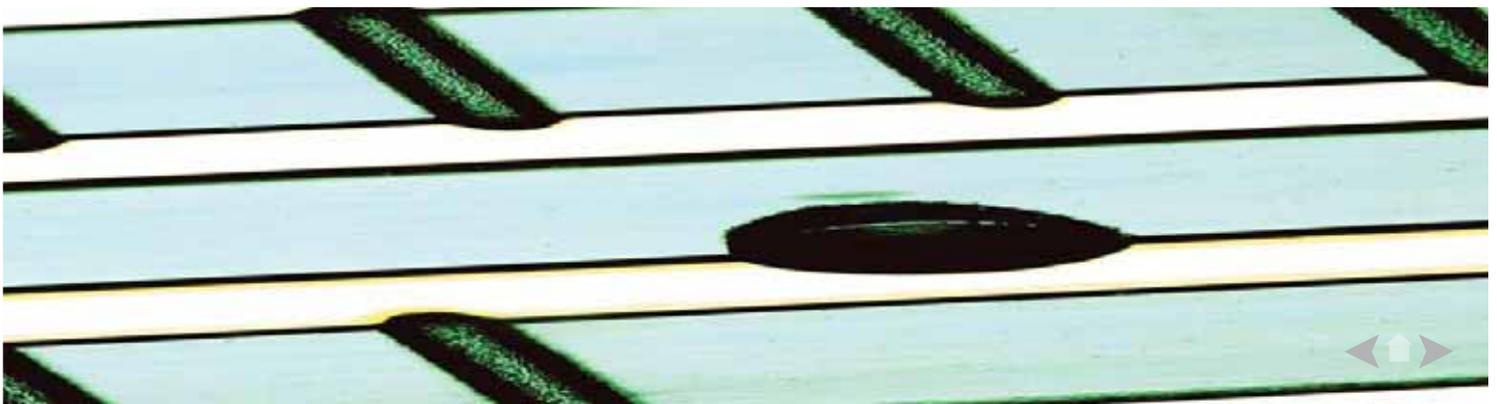
key elements of customer satisfaction for 91 per cent of projects).

Capability

- 3 Using technical benchmarking, Dstl will at least maintain the indicators of the health of its current capabilities that are assessed as effective while increasing, by 10 per cent, the number of indicators relating to capability development activity that are assessed as effective.

Results

- 4 Achieve an average ROCE of at least 3.5 per cent over the period 2004/05 to 2008/09.
- 5 Deliver the efficiency savings associated with the i lab programme in line with the Dstl Corporate Plan 2008–2013. This will be demonstrated in the short term by delivering the budget profit (loss) while not exceeding the budget indirect cost for 2008/09. It will be achieved by monitoring a range of measures, including:
 - corporate indirect cost as a percentage of net income (36.1 per cent)
 - achieving the budgeted profit while reducing the charge-out rate in real terms (loss before interest in 2008/09 of £9.2 million and budget average charge rate of £62.10 per hour)
 - indirect cost per hour booked to customer project (£37.82 per hour).



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 Dstl's policies, aims and objectives while safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me in 'Managing Public Money'.

Dstl was established as an Executive Agency of MOD in July 2001. It operates as a Trading Fund for which the Secretary of State for Defence has ultimate responsibility. The Secretary of State has appointed the Minister for DE&S (MIN(DES)) to assist him in the discharge of his responsibilities with regard to Dstl. This includes determining the policy and resources framework within which Dstl operates, setting its objectives and targets, and monitoring its overall performance.

The Corporate Plan, agreed with ministers, sets out our strategic objectives and the way in which we will deliver impartial and trusted support and advice based on our excellent knowledge and understanding of defence-relevant S&T. The plan also identifies corporate-level risks that could impact on delivery of successful performance, and strategies for risk management. We also have an agreed set of in-year Key Targets that track the performance of the organisation as it delivers the Corporate Plan. I am responsible for informing ministers and the Permanent Under Secretary of State as the Principal Accounting Officer of any material issue that may inhibit the effective and efficient performance of Dstl.

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 departmental 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 Dstl for the year ended 31 March 2008 and up to the date of approval of the Annual Report and Accounts, and accords with Treasury guidance.

Capacity to handle risk and control framework

Dstl has a well-established corporate approach to risk management that continues to improve in line with the evolution of the business.

Dstl's risk management process is based around the strategic risk cycle, principles and terminology outlined in 'Management of Risk' (issued by the Treasury in 2004, updated in 2007). The procedure sets out a framework to ensure consistency in the way in which Dstl identifies and assesses risks, reports probability and impact, and develops mitigation and contingency plans.

Dstl policy on corporate governance and the management of risk is set out in the Policy Manual, which is available to all staff. This is currently being updated to reflect Dstl's new structure and will be integrated into the Dstl Management System (DMS). Dstl's risk management and corporate governance policies, including audit and business continuity, are also implemented in line with Dstl procedures in the DMS.

The Executive reviews the Corporate Risk Register at regular meetings, and progress in mitigating the corporate risks is also reviewed and

the risk register updated. Operations Managers (for both Departments and Functions) meet on a monthly basis and risk management is a fixed agenda item at these meetings. Corporate risks are communicated to Departments and Functions through these meetings, and delegated where appropriate. Risks are also elevated from the operational to the corporate level, where appropriate.

Extract from the PKF¹ Annual Report:

"Risk management takes place at a number of levels; strategic, departmental, functional and programme as well as by project or activity. A new level of risk review is currently being implemented across the organisation. Members of the Executive now hold directorate risk registers which reflect the directorate-level risks arising from a combination of operational risks. Dstl has begun to implement a more formal approach to escalating and cascading risks within the organisation to the appropriate level of management. This aims to improve the risk management process, particularly within Functions and programmes where weaknesses were identified and will seek to ensure that risks identified are appropriate and consistent with each other, common themes are identified and that best practice is shared."

Business continuity

Dstl's strategy for business continuity is set out in the DMS. Drawing on business continuity management guidelines (as outlined in MOD's Joint Service Publication 503), the strategy covers business continuity processes and requirements at corporate and line management level. A recent Defence Security Standards Organisation (DSSO) report stated that Dstl is fully compliant with the requirements of Joint Service Publication 503. We are working towards compliance to ISO 25999 part 2.

¹Dstl internal auditor 2007/08.



Review of effectiveness

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

Audit Committee arrangements

Dstl's audit arrangements comply with Government Internal Audit Standards and details are set out in the DMS. The Dstl Audit Committee, which met three times during 2007/08, reports to the Board on the implications of assurances provided in respect of risk and control in Dstl and the adequacy of audit arrangements. The Audit Committee reviews both the internal and external auditing requirements, the adequacy of the financial systems, risk management, control and governance.

The Dstl Board reviews the system of internal control through reports from its committees and Executive Directors, who have responsibility for Dstl's strategic improvement programmes and key risks. These reports are made on an exceptional basis. Where there are control deficiencies, mitigation measures are put in place. The Executive is responsible for updating the Dstl Board on emerging significant

corporate and departmental risks and ensuring that Departments are informed about corporate risks that affect their areas. As Dstl's Chief Executive, I have ultimate responsibility for the risk management process; I attend the Audit Committee and I have presented the revised risk management process and given details of its implementation at two meetings. I have also discussed the evolution of the risk register with the Board throughout the year. PKF was Dstl's internal auditor for 2007/08 and, following a competitive tendering process, the organisation was recently reappointed for the years 2008/09 to April 2011. Regular reports to senior management and the Dstl Audit Committee provide independent assessment of the system of internal control and include recommendations for improvement.

Annual assessment of governance

As part of the internal audit process, Dstl's governance arrangements were reviewed by PKF. The auditors reported that: "The governance structure has remained unchanged and continues to follow governance best practice in many respects. The Board and Committees continue to operate effectively. We made no recommendations in this area and are satisfied that there are no issues which require attention."

External reviews

The Dstl Management System was subject to one full Lloyd's Register Quality Assurance visit in June 2007, and a follow-up check in December 2007. In both cases, it was concluded that 'the system continues to meet the requirements of ISO9001: 2000 and Ticket Guide issue 5 in the areas sampled', and no major non-conformities were raised.

The following comments were made:

- Business planning is becoming a much more robust and structured process with clear linkage and cascade of objectives from the Framework Document, Corporate Plan and the Business Plan into Departments and Functions.
- The standardisation of upward reporting from Departments and Functions provides management with appropriate data against which to monitor system effectiveness.
- The introduction of the Sales Order Book was seen as a significant improvement with regard to project management processes.
- The internal partnering agreements relating to the functional areas and the monitoring of the service provided by the Functions were effective.
- Customer satisfaction feedback was seen to be available within the Departments, generally positive and used constructively for improvement.

Significant internal control problems

There are currently no significant internal control problems. Based on the audit work carried out in 2007/08, PKF concluded that its audits support the annual Statement on Internal Control required by the Treasury. PKF's audits were carried out in accordance with Government Internal Audit Standards and other external requirements. The Dstl governance structure was judged by PKF to follow governance best practice in many respects.



Frances Saunders
Chief Executive
4 July 2008

Statement of Dstl's and Chief Executive's responsibilities

Under Section 4(6) of the Government Trading Funds Act 1973, the Treasury has directed Dstl to prepare 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, modified for the effect of changing prices on the valuation of fixed assets, and give a true and fair view of Dstl's state of affairs at the year end and of its profit, total recognised gains and losses, and cash flows for the financial year.

In preparing accounts, Dstl is required to:

- observe the Accounts Direction issued by the Treasury, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis
- make judgements and estimates on a reasonable basis
- state whether applicable accounting standards have been followed, and disclose and explain any material departures in the financial statements
- prepare the accounts on a going concern basis, unless it is inappropriate to presume that Dstl will continue in operation
- disclose that the Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which Dstl's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that Dstl's auditors are aware of that information.

The Treasury has appointed the Chief Executive as the Accounting Officer of Dstl. Her relevant responsibilities as Accounting Officer, including her responsibility for the propriety and regularity of the public finances for which she is answerable and for the keeping of proper records, are set out in the Accounting Officers' Memorandum issued by the Treasury and published in 'Managing Public Money' (The Stationery Office).



Frances Saunders
Chief Executive
4 July 2008

Report of protected personal data-related incidents

The Government has made a commitment to enhance transparency with Parliament and the public about action to safeguard information and the results of that action. As part of this process Departments and their Agencies are required to publish details of incidents that have resulted in the unauthorised disclosure of personal data in their annual reports.

An incident is defined as any circumstance (loss, unauthorised disclosure, insecure disposal) of inadequately protected electronic equipment, devices or paper documents from either secure Government premises or outside of secured Government premises; insecure disposal of inadequately protected electronic equipment, devices or paper documents; unauthorised disclosure or any other situation.

Protected data is defined as data that meets the definition of the minimum scope of protected personal data, or data that Dstl considers should receive a similar level of protection because it would put those affected at significant risk of harm or distress.

Incidents, the disclosure of which would in itself create an unacceptable risk of harm, may be excluded in accordance with the exemptions contained in the Freedom of Information Act 2000 or may be subject to the limitations of other UK information legislation.

During 2007/08 Dstl is unaware of any incidents that have resulted in the unauthorised disclosure of protected personal data. We are similarly unaware of any such incidents that have arisen during the period 2004/05 to 2006/07.

So far as the Accounting Officer is aware, there is no relevant information of which Dstl auditors are unaware and the Accounting Officer has taken all steps that she ought to have taken to make herself aware of any relevant audit information and to establish that Dstl's auditors are aware of that information.

Dstl Board and Executive

Dstl has an established governance structure and this is defined in the Laboratory's Framework document, which was revised in November 2006. Governance is achieved through a Board, led by Non-Executive Directors, and an Executive Committee.

The Board, which meets bimonthly, constructively challenges the Executive and applies scrutiny both in the development of business strategies, plans, business cases and targets and in assessing business performance in delivering Dstl's Corporate Plan.

The Board

Richard Maudslay	Non-Executive Chairman
Frances Saunders	Chief Executive
Mark Hone	Finance Director
Peter Starkey	Future Business Director
Michael Steeden	Technical Director
Jill Cook	Operations Director
Roger Platt	Independent Non-Executive Director
Admiral Sir Nigel Essenhigh	Independent Non-Executive Director
Professor Patrick Dowling	Independent Non-Executive Director
Christopher Swinson	Independent Non-Executive Director
Lord Robert May	Independent Non-Executive Director
Huw Walters	Non-Executive Director

The Executive

Frances Saunders	Chief Executive
Mark Hone	Finance Director
Peter Starkey	Future Business Director
Michael Steeden	Technical Director
Jill Cook	Operations Director
Ruth Davies	Human Resources and Communications Director
Nicholas Helbren	Rationalisation Director
Richard Scott	Programme Director (Science and Technology)
Christopher Gibson	Programme Director (Systems)

All directors have been in post for the entire year.



Directors' remuneration report

Remuneration Committee

The Remuneration Committee includes Richard Maudslay (Chair), Christopher Swinson, Admiral Sir Nigel Essenhigh and Huw Walters. The Dstl Chief Executive and HR and Communications Director attend committee meetings.

The committee met once in the year.

Remuneration policy

The committee applies the following remuneration policy to the employment of its Directors. Three Directors are Senior Civil Servants (SCS) and subject to SCS terms and conditions, including the remuneration policy. Their bonus arrangements fall under SCS rules rather than the Dstl performance-award system.

The remaining Directors are Dstl employees and subject to the same performance-related remuneration policy as all other Dstl staff.

Performance conditions

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

Service contracts

Dstl appointments are made in accordance with the Civil Service Commissioners' Recruitment Code and, wherever possible, on the basis of merit and fair and open competition.

Unless otherwise stated, the officials named in this report hold appointments that are open-ended until they reach the standard retirement age of 60. Early termination would result in the individual receiving compensation (except in cases of misconduct) as outlined in the Civil Service Compensation Scheme. There were no significant awards made to past senior managers.

Dstl Board Directors' remuneration (excluding pension arrangements):

Name	Salary Band 2007/08 £'000	Salary Band 2006/07 £'000	Bonus 2007/08 £'000	Bonus 2006/07 £'000	Fee 2007/08 £'000	Fee 2006/07 £'000
Richard Maudslay					35 - 40	45 - 50
Frances Saunders	85 - 90	80 - 85	10 - 15	5 - 10		
Mark Hone	65 - 70	65 - 70				
Peter Starkey	70 - 75	70 - 75	5 - 10	0 - 5		
Michael Steeden	80 - 85	30 - 35				
Jill Cook	60 - 65	60 - 65	5 - 10	0 - 5		
Roger Platt					20 - 25	15 - 20
Admiral Sir Nigel Essenhigh					20 - 25	15 - 20
Professor Patrick Dowling					20 - 25	15 - 20
Christopher Swinson					20 - 25	15 - 20
Lord Robert May					20 - 25	20 - 25
Huw Walters						

Bonuses have been awarded as indicated for 2007/08.

Fees have been paid as indicated for 2007/08.

No additional remuneration or other allowances were paid to members of the Dstl Board.

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

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

Huw Walters has received no fee; he represented MOD as a Non-Executive Director.



Dstl Board pension provision

This information is subject to audit.

The information below details the real increase in pension and related lump sum.

Name	Real increase in pension [and related lump sum at age 60] £'000	Total accrued pension at age 60 at 31/3/08 [and related lump sum] £'000	Cash equivalent value at 31/3/07 £'000	Cash equivalent value at 31/3/08 £'000	Real increase in cash equivalent transfer value as funded by employer £'000
Frances Saunders ¹	0 - 2.5	35 - 40	601.0	719.0	28.0
Mark Hone	0 - 2.5 [0 - 2.5]	10 - 15 [30 - 35]	160.0	198.0	10.0
Peter Starkey	0 - 2.5 [2.5 - 5]	25 - 30 [85 - 90]	536.0	631.0	18.0
Michael Steeden ¹	0 - 2.5	0 - 5	10.0	38.0	22.0
Jill Cook	0 - 2.5 [5 - 7.5]	20 - 25 [70 - 75]	372.0	469.0	43.0

Executive committee remuneration (excluding pension arrangements)

This information is subject to audit.

Name	Salary band 2007/08 £'000	Salary band 2006/07 £'000	Bonus 2007/08 £'000	Bonus 2006/07 £'000
Frances Saunders	85 - 90	80 - 85	10 - 15	5 - 10
Mark Hone	65 - 70	65 - 70		
Peter Starkey	70 - 75	70 - 75	5 - 10	0 - 5
Michael Steeden	80 - 85	30 - 35		
Jill Cook	60 - 65	60 - 65	5 - 10	0 - 5
Ruth Davies	70 - 75	70 - 75	10 - 15	5 - 10
Nicholas Helbren	45 - 50	50 - 55	5 - 10	0 - 5
Richard Scott	75 - 80	75 - 80	5 - 10	5 - 10
Christopher Gibson	70 - 75	70 - 75	5 - 10	

¹Premium Pension Scheme, only refund of contributions due.



Executive pension provision

This information is subject to audit.

Name	Real increase in pension [and related lump sum at age 60]	Total accrued pension at age 60 at 31/3/08 [and related lump sum]	Cash equivalent value at 31/3/07	Cash equivalent value at 31/3/08	Real increase in cash equivalent transfer value as funded by employer
	£'000	£'000	£'000	£'000	£'000
Frances Saunders*	0 - 2.5	35 - 40	601.0	719.0	28.0
Mark Hone	0 - 2.5 [0 - 2.5]	10 - 15 [30 - 35]	160.0	198.0	10.0
Peter Starkey	0 - 2.5 [2.5 - 5]	25 - 30 [85 - 90]	536.0	631.0	18.0
Michael Steeden*	0 - 2.5	0 - 5	10.0	38.0	22.0
Jill Cook	0 - 2.5 [5 - 7.5]	20 - 25 [70 - 75]	372.0	469.0	43.0
Ruth Davies*	0 - 2.5	0 - 5	45.0	71.0	16.0
Nicholas Helbren	0 - 2.5 [0 - 2.5]	0 - 5 [0 - 5]	N/A	N/A	N/A
Richard Scott	0 - 2.5 [0 - 2.5]	30 - 35 [95 - 100]	724.0	831.0	14.0
Christopher Gibson	0 - 2.5 [0 - 2.5]	25 - 30 [60 - 65]	327.0	391.0	11.0

*Premium Pension Scheme, only refund of contributions due.

With the exception of Frances Saunders, Ruth Davies and Michael Steeden, who belong to the Premium Civil Service Pension Scheme, all Directors belong to the Classic Civil Service Pension Scheme. Both schemes are part of the Principal Civil Service Pension Scheme (PCSPS). See Note 6 to the accounts.

Disclosure of cash elements of pension provision for Nicholas Helbren are not required as he has attained pensionable age.

The cash elements for pension provision for Michael Steeden have been restated to include only benefits accrued during his employment at Dstl.

Due to a change in calculation method, there are some minor differences between the 2006/07 closing CETV and the 2007/08 opening CETV values.

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

No compensation was payable to former senior managers during the year.

There were no amounts payable to third parties for services of a senior manager.



Frances Saunders
Chief Executive
4 July 2008



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

I certify that I have audited the financial statements of the Defence Science and Technology Laboratory for the year ended 31 March 2008 under the Government Trading Funds Act 1973. These comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective responsibilities of the Defence Science and Technology Laboratory, Chief Executive and auditor

The Defence Science and Technology Laboratory and Chief Executive are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement on Internal Control and Chief Executive's responsibilities.

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

I report to you my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder. I report to you whether, in my opinion, the information, which comprises pages 2-20 and 22-25, is consistent with the financial statements. I also report whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

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

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

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

Basis of audit opinions

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

I planned and performed my audit so as to obtain all the information and explanations that I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements

and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

In my opinion:

- the financial statements give a true and fair view, in accordance with the Government Trading Funds Act 1973 and directions made thereunder by HM Treasury, of the state of the Defence Science and Technology Laboratory's affairs as at 31 March 2008 and of its profit for the year then ended
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Trading Funds Act 1973 and HM Treasury directions made thereunder
- information, which comprises pages 2-20 and 22-25, is consistent with the financial statements.

Opinion on regularity

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

Report

I have no observations to make on these financial statements.

T J Burr
Comptroller and Auditor General
National Audit Office
151 Buckingham Palace Road
Victoria London. SW1W 9SS
9 July 2008



Dstl profit and loss account

For the year ended 31 March 2008

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Turnover	2	379.9	367.1	378.9	366.8
Cost of sales		(106.5)	(97.1)	(106.2)	(96.8)
Net income		273.4	270.0	272.7	270.0
Net operating expenses		(259.1)	(249.9)	(257.8)	(249.1)
Operating profit before impairments		14.3	20.1	14.9	20.9
Net operating expenses – impairments		(0.6)	(1.1)	(0.6)	(1.1)
Operating profit	3	13.7	19.0	14.3	19.8
Share of operating profit in associate		-	-	-	-
Loss on disposal of fixed assets		-	-	-	(1.2)
Profit on ordinary activities before interest		13.7	19.0	14.3	18.6
Interest receivable	7	4.6	4.1	4.6	4.2
Profit for the financial year		18.3	23.1	18.9	22.8
Dividends	8	(3.0)	(3.0)	(3.0)	(3.0)
Retained profit for the year	19	15.3	20.1	15.9	19.8
Return on Capital Employed (ROCE)	4	5.3%	8.1%	5.5%	7.9%

All operations are continuing.

Statement of total recognised gains and losses

For the year ended 31 March 2008

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Profit for the financial year		18.3	23.1	18.9	22.8
Unrealised surplus on revaluation of tangible fixed assets	10, 11, 20	7.4	4.5	7.7	2.6
Total gains and losses recognised since the previous Annual Report		25.7	27.6	26.6	25.4

The notes on pages 37 to 51 form an integral part of these accounts.



Balance Sheet

As at 31 March 2008

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Fixed assets					
Tangible assets	10	168.6	132.1	168.6	132.1
Investments	11	2.9	2.2	0.9	-
Investment in associates		-	-	-	-
		171.5	134.3	169.5	132.1
Current assets					
Stocks and work in progress	12	7.6	7.0	7.9	7.2
Debtors	13	132.6	93.6	133.6	94.6
Cash and cash equivalents	21	59.6	87.9	59.4	87.2
		199.8	188.5	200.9	189.0
Creditors: amounts falling due within one year	14	(99.5)	(74.2)	(99.2)	(74.0)
Net current assets		100.3	114.3	101.7	115.0
Total assets less current liabilities		271.8	248.6	271.2	247.1
Financed by:					
Creditors: amounts falling due after more than one year	15	0.7	1.1	0.6	1.0
Provisions for liabilities and charges	16	5.5	4.9	5.5	4.9
		6.2	6.0	6.1	5.9
Capital and reserves					
Public dividend capital	18	50.4	50.4	50.4	50.4
Revaluation reserve	19	47.2	40.8	45.6	38.9
Profit and loss account	19	168.0	151.4	169.1	151.9
Government funds		265.6	242.6	265.1	241.2
Total		271.8	248.6	271.2	247.1

The financial statements were signed on 4 July 2008

The financial statements were authorised for issue on 15 July 2008*



Frances Saunders, Chief Executive



Mark Hone, Finance Director

*This represents the date of despatch by the Trading Fund's Board, to the Secretary of State for Defence, for laying before the Houses of Parliament.



Cash flow statement

For the year ended 31 March 2008

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Cash flow from operating activities					
Net cash inflow from operating activities	28	3.1	23.3	3.5	23.5
Dividends from associate		-	-	-	-
Returns on investments and servicing of finance					
Interest received		4.8	4.1	4.8	4.1
Net cash inflow from returns on investments and servicing of finance		4.8	4.1	4.8	4.1
Net cash inflow before capital expenditure		7.9	27.4	8.3	27.6
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(33.1)	(16.1)	(33.1)	(16.1)
Payments for investments		(0.2)	-	(0.1)	-
Amounts received upon sale of tangible fixed assets		0.1	0.9	0.1	-
Net cash outflow from capital expenditure and financial investment		(33.2)	(15.2)	(33.1)	(16.1)
Dividends paid		(3.0)	(3.0)	(3.0)	(3.0)
Net cash inflow/(outflow) before financing		(28.3)	9.2	(27.8)	8.5
Increase/(decrease) in cash	21	(28.3)	9.2	(27.8)	8.5



Notes to the accounts

1 ACCOUNTING POLICIES

(a) Accounting convention

The accounts are prepared in accordance with applicable accounting standards and under the historical cost convention modified to include the revaluation of tangible fixed assets.

Dstl has prepared accounts for the year ended 31 March 2008 in compliance with the accounting principles and disclosure requirements of the Financial Reporting Manual issued by HM Treasury that is in force for 2007/08.

The accounts have been prepared so as:

- (i) to give a true and fair view of the income and expenditure, total recognised gains and losses, and cash flows of the Trading Fund and Group, and of the state of affairs as at period ended 31 March 2008
- (ii) to provide disclosure of any material income or expenditure that has not been applied to the purposes intended by Parliament, or material transactions that have not conformed to the authorities that govern them.

(b) Basis of consolidation

The consolidated accounts incorporate those of the the Trading Fund together with its associate, Tetricus Limited, its joint venture, Enigma Diagnostics Limited, and those of its wholly owned subsidiary undertaking, Ploughshare Innovations Limited, together with all of its joint ventures. Enigma Diagnostics Limited has no material trading income or expenditure.

The subsidiary undertaking has been consolidated using the acquisition method. The associate has been consolidated using the equity method, and all joint ventures have been consolidated using the gross equity method. The accounts are drawn up to 31 March 2008.

(c) Subsidiary and its joint ventures

Ploughshare Innovations Limited was incorporated as a wholly owned subsidiary of Dstl on 6 April 2005.

It was created as a vehicle to manage Dstl's joint venture initiatives.

Various joint ventures exist to allow Dstl's technology to be developed for commercial applications.

An agreement is in place transferring from Dstl, to Ploughshare Innovations Limited, all beneficial interests in P2i Limited (formerly Porton Plasma Innovations Limited), and Leading Light Scientific Limited.

Ploughshare Innovations Limited has performed its own valuation of the joint ventures using a professional valuer, Alivero Limited. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking, with Group adjustments in respect of the Enigma Diagnostics Limited valuation and the P2i Limited valuation. Details are provided in Note 11.

(d) Associate

Tetricus Limited was incorporated on 22 November 1999. It has been consolidated using the equity method.

Management accounts are used to consolidate for the 12 months to 31 March 2008. Details are provided in Note 11.

(e) Joint venture

Enigma Diagnostics Limited remains as the only joint venture where the Trading Fund has some direct ownership of beneficial interests. The investment has been valued by a professional valuer, Alivero Limited. The valuation has been adopted by the Board. Details are provided in Note 11.

(f) Tangible fixed assets

Tangible fixed assets are stated at valuation less accumulated depreciation. The valuation bases for different classes of asset are as follows:

Land and buildings:

- Porton Down – depreciated replacement cost
- Portsdown West – existing use valuation
- Portsdown West where a building is of a specialist nature – depreciated replacement cost
- For land and buildings that have been declared surplus – market value

Legacy and acquired facilities

- net recoverable amount

Plant, machinery, computers and office equipment

- net current replacement cost

A facility is a collection of fixed assets operated together to provide discrete services. Fixed assets included as legacy and acquired facilities incorporate, as appropriate, land, buildings, plant and machinery, computers and office equipment. The net recoverable amount is calculated as the greater of:

- (i) the estimated net present value of the cash flows deriving from the continued use of the asset less an allowance for profit to be earned in accordance with the Government Profit Formula
 - (ii) the estimated net sale proceeds of the asset.
- In order to meet the Treasury's requirement for modified historic cost accounting, tangible fixed assets are revalued in the years between professional valuations using the following indices:

- Land – Gross Domestic Product Deflator Index
- Buildings – Buildings Cost Information Service All-In Tender Price Index
- Other assets – relevant indices published by the Office for National Statistics.

Depreciation is provided evenly over the useful economic lives of the assets, which are generally considered to be the following:

Freehold land	Not depreciated
Freehold buildings	1 - 40 years
Legacy and acquired facilities	1 - 12 years
Plant and machinery	1 - 25 years
Computers and office equipment	1 - 10 years



Plant and machinery, computers, and office equipment are capitalised where their historical cost of acquisition is greater than £10,000. Software licences are expensed.

The revaluation reserve is released to the profit and loss account reserve in accordance with FRS15.

(g) Leased assets

Assets held under finance leases are capitalised as tangible fixed assets and depreciated over the term of the lease.

Rentals are apportioned between reductions in the capital obligations included in creditors and finance charges, which are charged to the profit and loss account.

Expenditure under operating leases is charged to the profit and loss account as incurred.

(h) Work in progress

Work in progress represents costs incurred on specific contracts, not classified as long-term contracts, and is stated at the lower of cost (or net replacement cost if materially different), and net realisable value. Cost represents direct materials and labour and other directly attributable overheads.

(i) Long-term contracts

Amounts recoverable on long-term contracts are stated at cost (or net current replacement cost if materially different), plus attributable profits less provision for any known or anticipated losses and payments on account, and are included in debtors as amounts recoverable under contracts.

(j) Insurance

In common with other Government-owned organisations, Dstl carries commercial insurance only where it is considered cost effective. Dstl carries its own risks in respect of fire, explosion, common law, third party etc, and its operating costs include claims against self-insurance. In the event of a loss occurring that exceeds the ability of the organisation to bear the cost, Dstl will consult with MOD about the action to be taken.

(k) Pensions

Past and present employees are covered by the provisions of the Principal Civil Service Pension Scheme (PCSPS), which is an unfunded multi-employer scheme

providing benefits based on final salary. Dstl is unable to identify its share of the underlying assets and liabilities. Therefore, as required by FRS17 Retirement Benefits, Dstl accounts for the scheme as if it was a defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Employees joining after 1 October 2002 could opt to open a partnership pension, with an employer contribution. Details of rates and amounts of contributions during the year are given in Note 6.

(l) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the rates ruling at that date. The resulting exchange differences are dealt with in the determination of profit for the financial year.

(m) Corporation tax

Dstl is exempt from corporation tax under Section 829(2) of the Income and Corporation Taxes Act 1988 and consequently the requirements to account for current tax and deferred tax under FRS16 and FRS19 are not relevant for these financial statements.

Ploughshare Innovations Limited is liable to pay corporation tax in the UK on its taxable profits, and is incorporated in the Group financial statements. See Note 9 to the accounts.

(n) Going concern

The accounts have been prepared on the basis that Dstl is a going concern.

(o) Turnover

Turnover represents amounts invoiced to customers (net of VAT), with an adjustment, for all work performed in the year.

For cost-plus contracts, amounts receivable under contract are recognised as turnover, which includes a contract fee. For long-term contracts, an appropriate amount of profit is attributed where there is reasonable certainty of the final outcome.



2 Turnover

Turnover by major class of customer is analysed as follows:

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
MOD:	327.7	310.6	327.7	310.7
Research	181.7	161.3	181.7	161.3
Non-research	146.0	149.3	146.0	149.4
Non-MOD:	52.2	56.5	51.2	56.1
Government Departments	22.9	25.6	22.9	25.6
Non-Exchequer income	29.2	30.7	28.3	30.5
Non-Exchequer royalty income	0.1	0.2	-	-
Total	379.9	367.1	378.9	366.8

Turnover is categorised according to the main contracted customer. All turnover relates to the same class of business, which is the supply of scientific and technical services. This is conducted principally in the UK in sterling, and no other geographical market has contributed significantly to turnover. Due to revised tasking arrangements during the year, there was a reclassification of some turnover between MOD research and MOD non-research contracts.

3 Operating profit

This is stated after charging/(crediting):

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Depreciation charge for the year:	9.2	8.3	9.2	8.3
Depreciation of owned assets	7.1	7.6	7.1	7.6
Exceptional costs of impairment of tangible fixed assets	1.9	1.1	1.9	1.1
Adjustment/(downward) valuation of tangible fixed assets	0.2	(0.4)	0.2	(0.4)
Operating lease rentals – land and buildings	7.4	7.3	7.4	7.3
– plant and machinery	0.2	0.7	0.2	0.7
Travel, subsistence and hospitality	3.7	3.4	3.7	3.4
Foreign exchange losses	0.1	0.2	0.1	0.2
Other operating income	(8.0)	(10.0)	(8.3)	(10.5)

Operating expenses include a fee of £68,250 (2006/07: £65,000) for the external audit by the National Audit Office (NAO), and a further £15,000 for the external audit of the subsidiary undertaking, Ploughshare Innovations Limited (2006/07: £10,000). The external auditors have not received any remuneration for non-audit services.



4 Key corporate financial target

Dstl has a ROCE, defined as follows:

- a) Return – modified historical cost profit on ordinary activities before interest and dividends
- b) Capital employed – average net assets, being total assets less current and long-term creditors, but excluding provisions

The target for the year for ROCE was 3.5 per cent.

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Profit on ordinary activities before interest	13.7	19.0	14.3	18.6
Total assets less current liabilities	271.8	248.6	271.2	247.1
Less: long-term creditors excluding provisions	(0.7)	(1.1)	(0.6)	(1.0)
Capital employed at year end	271.1	247.5	270.6	246.1
Average capital employed during the year	259.3	235.0	258.4	234.7
ROCE	5.3%	8.1%	5.5%	7.9%

5 Trading Fund Board members' emoluments

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

	2008 £'000	2007 £'000
Salaries, bonuses and fees	843.6	816.8

6 Employee information

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

	2008 Group Number	2007 Group Number	2008 Trading Fund Number	2007 Trading Fund Number
Professional and technical staff	2,669	2,771	2,659	2,763
Administrative and industrial staff	652	648	649	645
Secondees	99	44	99	44
Total	3,420	3,463	3,407	3,452

In addition, there were 912 (2006/07: 900) agency and contract staff utilised during the year at a cost of £14.8 million (2006/07: £16.3 million).



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

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Wages and salaries	115.4	110.8	114.8	110.3
Social security costs	9.7	9.5	9.6	9.4
Other pension costs	22.2	21.4	22.1	21.4
Total	147.3	141.7	146.5	141.1

The employees of Dstl are eligible to be members of the Principal Civil Service Pension Scheme (PCSPS), which is a final salary scheme. The PCSPS is an unfunded multi-employer defined benefit scheme, but Dstl is unable to identify its share of the underlying assets and liabilities. A full actuarial valuation was carried out at 31 March 2007. Details can be found in the resource accounts of the Cabinet Office; Civil Superannuation (www.civilservice-pensions.gov.uk). For 2007/08, normal employers' contributions of £22.1 million were payable to the PCSPS (2006/07: £21.4 million) at one of four rates in the range 17.1 per cent to 25.5 per cent of pensionable pay (2006/07: 17.1 per cent to 25.5 per cent). The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2008/09, the salary bands will be revised but the rates will remain the same. The rates will be changing with effect from April 2009. The contribution rates are set to meet the cost of the benefits accruing during 2007/08 to be paid when the member retires, and not the benefits paid during this period to existing pensioners. Employees can opt to open a partnership pension account – a stakeholder pension with an employer contribution. Employers' contributions of £99,990.04 were paid to one or more of a panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 12.5 per cent of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £6,219.77, representing 0.8 per cent of pensionable pay, were payable to the PCSPS to cover the cost of the future provision of lump sum benefits on death in service, and ill-health retirement of these employees. Contributions due to the partnership pension providers at the Balance Sheet date were £12,658.73. There were no prepaid contributions at that date.

7 Interest receivable

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Interest receivable on deposits	4.6	4.1	4.6	4.2

8 Dividends payable

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Ordinary	3.0	3.0	3.0	3.0
Total	3.0	3.0	3.0	3.0

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

9 Taxation

Dstl is not subject to income or corporation tax in the UK under Section 829(2) of the Income and Corporation Taxes Act 1988, and consequently the requirements to account for current tax and deferred tax under FRS16 and FRS19 are not relevant to the Trading Fund. However, Ploughshare Innovations Limited is liable to pay corporation tax in the UK on its taxable profits. During the year, Ploughshare Innovations Limited made a trading loss.



10 Tangible fixed assets

Group and Trading Fund

The accounting policy for tangible fixed assets is covered in Note 1.
Tangible fixed asset movements during the year were as follows:

	Freehold land and buildings £ million	Legacy facilities £ million	Plant and machinery £ million	Computers and office equipment £ million	Assets under construction £ million	Total £ million
Historic cost, valuations and gross modified historic cost:						
Balance brought forward	105.3	0.3	62.2	2.6	21.8	192.2
Additions	-	-	0.1	-	38.5	38.6
Disposals	-	-	(1.1)	(1.5)	-	(2.6)
Transfers	2.1	-	1.2	0.4	(3.7)	-
Downward revaluation	-	-	-	-	-	-
Revaluations	1.0	-	0.4	-	-	1.4
Impairment	-	-	-	-	(1.3)	(1.3)
Balance carried forward	108.4	0.3	62.8	1.5	55.3	228.3
Depreciation:						
Balance brought forward	(20.6)	(0.3)	(36.9)	(2.3)	-	(60.1)
Charge for year:						
historical	(3.3)	-	(3.6)	(0.2)	-	(7.1)
supplementary	-	-	(0.1)	-	-	(0.1)
downward revaluation	0.6	-	-	-	-	0.6
impairment	(0.2)	-	(0.4)	-	-	(0.6)
Disposals	-	-	1.1	1.5	-	2.6
Revaluations	5.0	-	-	-	-	5.0
Balance carried forward	(18.5)	(0.3)	(39.9)	(1.0)	-	(59.7)
Net modified historic cost:						
Balance carried forward	89.9	-	22.9	0.5	55.3	168.6
Balance brought forward	84.7	-	25.3	0.3	21.8	132.1

Land and buildings are subject to a quinquennial revaluation by an independent, professional valuer in accordance with FRS15. Land at Pyestock is valued annually. The latest valuation was carried out as at 31 March 2008 on a Market Value basis by Knight Frank LLP, Chartered Surveyors. Portsdown Main was valued as at 31 January 2008 on a Market Value basis by Knight Frank LLP, Chartered Surveyors. All other land and building assets at Porton Down and Portsdown West are valued on a rolling basis by GVA Grimley Limited, Chartered Surveyors. A third of all building assets at Porton Down were revalued as at 31 March 2007. A further third of all building assets at Porton Down were revalued as at 31 March 2008. The remaining building assets and the land at Porton Down will be revalued during the next year. Thereafter, the revaluation will be performed on a five-year rolling basis. The land and building assets at Portsdown West were revalued as at 31 March 2008. The published figures for land and buildings include:

- a professional external valuation of the land at Pyestock as at 31 March 2008
 - a professional external valuation of Portsdown Main as at 31 January 2008
 - a professional external valuation of the land and building assets at Portsdown West as at 31 March 2008
 - a professional external valuation of a third of the building assets at Porton Down as at 31 March 2008
 - a professional external valuation of a third of the building assets at Porton Down as at 31 March 2007
 - a professional external valuation of the balance of the building assets and the land at Porton Down as at 31 March 2004.
- The basis of the valuation for the land at Pyestock and Portsdown Main was Market Value. Portsdown Main, which is reported as an asset under construction, was impaired by £1.3 million. The basis of the valuation for Porton Down was Market Value using the Depreciated Replacement Cost (DRC) method. The basis of the valuation for Portsdown West was the Existing Use Valuation (EUV) method, but where there are buildings of a specialist design and purpose, the DRC method was applied.



In the event of Porton Down and Portsdown West being marketed for an alternative use to their current purpose, it is likely that the values would be materially lower than the reported figures for the following reasons:

- planning for alternative use has not been established
- site locations are generally not in areas of high land demand
- Dstl facilities are specialist and have a higher replacement cost than their value
- the specialist nature of some facilities would have no market elsewhere
- restrictions relating to sites such as Sites of Special Scientific Interest (SSSIs) affect land value.

During the year, a business in use valuation carried out on the CAT4 facility identified an impairment. The business in use valuation extended over a period of 25 years, and cash flows were discounted at a required rate of return of 5.3 per cent. The impairment is disclosed as £0.2 million for buildings and £0.4 million for plant and machinery.

11 Investments

	Trading Fund subsidiary undertaking £ million	Trading Fund joint ventures and associate £ million	Trading Fund total £ million	Group joint ventures and associate £ million	Group total £ million
Cost or valuation:					
At 1 April 2007	-	-	-	2.2	2.2
Additions	-	0.1	0.1	0.2	0.2
Disposals	-	-	-	-	-
Revaluations	-	0.8	0.8	0.5	0.5
At 31 March 2008	-	0.9	0.9	2.9	2.9
Amount provided	-	-	-	-	-
Net book value					
At 31 March 2008	-	0.9	0.9	2.9	2.9
At 1 April 2007	-	-	-	2.2	2.2

During the year ended 31 March 2007, an agreement was put in place transferring all beneficial interests in P2i Limited (formerly Porton Plasma Innovations Limited), and Leading Light Scientific Limited from Dstl to Ploughshare Innovations Limited. Ploughshare Innovations Limited has performed its own valuation of the joint ventures using a professional valuer, Alivero Limited. These valuations have been adopted by the Board, and have been incorporated into the Group accounts on consolidation of the subsidiary undertaking, with Group adjustment in respect of the P2i Limited and the Enigma Diagnostics Limited valuations. The P2i Limited valuation has been reduced by £0.4 million and the Enigma Diagnostics Limited valuation has been reduced by £2.4 million. These represent the joint venture's amortised valuation of the patent licences that have been internally generated by the Trading Fund. Enigma Diagnostics Limited remains as the only joint venture where the Trading Fund has some direct ownership of all beneficial interests. The investment has been valued by a professional valuer, Alivero Limited. The Board has adopted the valuation, with only a Group adjustment made on consolidation for the internally generated patent licence described above.

Further details of the joint venture and associate owned directly by the Trading Fund at 31 March 2008 are shown below:

Name of company	Principal area of operation and country of incorporation	Proportion of voting rights and shares held	Class of shares held	Last financial year ended	Aggregate capital and reserves £ million	Profit/(Loss) for year £ million	Nature of business
Joint venture							
Enigma Diagnostics Ltd	Great Britain	17.0%	Ordinary of 10p/ Preferred Ordinary 1p	30 Apr 2007	1.1	(5.3)	R&D

Management accounts for 11 months to 31 March 2008, adjusted for 12 months, have been used as audited accounts were not available.

Associate

Tetricus Limited	Great Britain	33.3%	Ordinary C of £1	31 Mar 2008	0.2	-	Business support to biotechnology start-ups
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Management accounts for 12 months to year ended 31 March 2008 have been used for the disclosure because audited accounts were not available.



12 Stocks and work in progress

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Work in progress				
Central government bodies	5.8	5.4	5.8	5.4
Trading funds	-	-	0.3	0.2
NHS Trusts	-	0.1	-	0.1
Non-public sector organisations	1.8	1.5	1.8	1.5
Total	7.6	7.0	7.9	7.2

13 Debtors

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Trade debtors	24.1	21.0	23.9	21.0
Central government bodies	18.6	18.0	18.5	18.0
NHS Trusts	0.1	-	0.1	-
Local authorities	-	0.3	-	0.3
Non-public sector organisations	5.4	2.7	5.3	2.7
Amounts recoverable under contracts	102.8	67.5	102.8	67.5
Central government bodies	102.1	66.5	102.1	66.5
Non-public sector organisations	0.7	1.0	0.7	1.0
Other debtors	1.6	1.1	2.9	2.0
Central government bodies	0.7	0.9	0.7	0.9
Trading funds	-	-	1.3	0.9
Non-public sector organisations	0.4	-	0.4	-
Staff debtors	0.5	0.2	0.5	0.2
Loans due from Ploughshare Innovations Limited	-	-	-	0.2
Prepayments and accrued income	4.1	4.0	4.0	3.9
Central government bodies	0.1	-	0.1	-
Non-public sector organisations	4.0	4.0	3.9	3.9
Total	132.6	93.6	133.6	94.6

The loan due from Ploughshare Innovations Limited was an inter-company loan, set at an interest rate of the base rate plus two per cent. The loan arrangement was on demand, with a total limit set at £750,000. The loan, which was due for repayment by 6 April 2008, was repaid together with all related interest on 28 March 2008. A new loan arrangement is in place from 6 April 2008, set at an interest rate of the base rate plus two per cent. The new loan arrangement is on demand, with a total limit set at £500,000. The loan will be repayable on the third anniversary of the agreement, which is 6 April 2011. Within the Trading Fund's other debtors is a current account with Ploughshare Innovations Limited. The balance on this account represents amounts due for services provided. There is no intention to demand payment during the next year.



14 Creditors: amounts falling due within one year

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Payments received on account	9.4	8.3	9.4	8.3
Central government bodies	5.6	4.9	5.6	4.9
NHS Trusts	-	0.2	-	0.2
Local authorities	-	0.1	-	0.1
Non-public sector organisations	3.8	3.1	3.8	3.1
Trade creditors	18.6	10.4	18.6	10.3
Central government bodies	0.8	1.3	0.8	1.3
Non-public sector organisations	17.8	9.1	17.8	9.0
Taxation and social security	7.6	7.7	7.6	7.7
Other creditors	2.7	2.3	2.5	2.2
Central government bodies	2.2	2.0	2.2	2.0
Non-public sector organisations	0.3	0.2	0.2	0.1
Staff creditors	0.2	0.1	0.1	0.1
Accruals and deferred income	57.5	41.6	57.4	41.6
Central government bodies	3.6	3.8	3.6	3.8
Trading funds	0.2	0.1	0.2	0.1
Local authorities	1.3	0.7	1.3	0.7
Non-public sector organisations	52.4	36.9	52.3	36.9
Staff costs	-	0.1	-	0.1
Rationalisation, redundancy and early retirement costs – non-public sector organisations	0.7	0.9	0.7	0.9
Dividend	3.0	3.0	3.0	3.0
Total	99.5	74.2	99.2	74.0

15 Creditors: amounts falling due after more than one year

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Accruals and deferred income	0.1	0.1	-	-
Central government bodies	0.1	-	-	-
Non-public sector organisations	-	0.1	-	-
Rationalisation, redundancy and early retirement costs – non-public sector organisations	0.6	1.0	0.6	1.0
Total	0.7	1.1	0.6	1.0



16 Provisions for liabilities and charges

Group and Trading Fund

	Infrastructure maintenance and upgrades £ million	Onerous contracts £ million	Total £ million
Balance brought forward	4.0	0.9	4.9
Additions in year	0.6	-	0.6
Balance carried forward	4.6	0.9	5.5

Infrastructure maintenance and upgrades

A provision is recognised for certain infrastructure maintenance and upgrades where Dstl is legally responsible for the infrastructure concerned and there is a clear legal or constructive obligation resulting in an expected transfer of economic benefits. The timing for the transfer of economic benefits for the remaining amount is uncertain, but is expected to be completed before 2009.

Onerous contracts

Dstl occupies a site at Farnborough under the terms of an operating lease. On exit from this lease during 2009, Dstl has an obligation (under dilapidation terms of the contract) to repair and refurbish the previously occupied areas of the site. It is unlikely that there will be liabilities on exit from other sites.

17 Operating leases

Group and Trading Fund

Commitments for rental payments under non-cancellable operating leases payable during periods after the Balance Sheet date are analysed as follows:

	2008 £ million	2007 £ million
Buildings		
Leases expiring:		
– within one year	3.2	3.2
– between two and five years	4.3	4.2
– over five years	-	-
Plant and machinery		
Leases expiring:		
– within one year	0.1	0.1
Total	7.6	7.5

18 Public dividend capital

Group and Trading Fund

	2008 £ million	2007 £ million
Balance brought forward	50.4	50.4
Net movement in year	-	-
Balance carried forward	50.4	50.4



19 Revaluation and other reserves

	Note	Revaluation reserve Group £ million	Revaluation reserve Trading Fund £ million	Profit and loss account Group £ million	Profit and loss account Trading Fund £ million	Total Group £ million	Total Trading Fund £ million
At beginning of year as previously reported		40.8	38.9	151.4	151.9	192.2	190.8
Retained profit for the year		-	-	15.3	15.9	15.3	15.9
Release from revaluation reserve		(1.0)	(1.0)	1.0	1.0	-	-
Revaluation of tangible fixed assets	10	6.9	6.9	0.3	0.3	7.2	7.2
Revaluation of investments	11	0.5	0.8	-	-	0.5	0.8
Balance carried forward		47.2	45.6	168.0	169.1	215.2	214.7

20 Reconciliation of movements in Government funds

Government funds represent reserves

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Retained profit for the year		15.3	20.1	15.9	19.8
Movements on revaluation reserve	19	7.7	4.5	8.0	2.6
Net movement in Government funds		23.0	24.6	23.9	22.4
Balance brought forward		242.6	218.0	241.2	218.8
Balance carried forward		265.6	242.6	265.1	241.2

21 Analysis of the balances of cash as shown in the Balance Sheet

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Cash at bank and in hand	0.9	0.4	0.9	0.4
Short-term deposits	58.7	87.5	58.5	86.8
Balance carried forward	59.6	87.9	59.4	87.2

Analysis of changes in cash and cash equivalents during the year

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Balance brought forward	87.9	78.7	87.2	78.7
Increase/(decrease) in cash and liquid resources	(28.3)	9.2	(27.8)	8.5
Balance carried forward	59.6	87.9	59.4	87.2



Financial instruments

The Trading Fund and its subsidiary undertaking's principal financial instruments comprise cash and short-term deposits. The main purpose of these financial instruments is to finance the Group's operations. The Group has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations. The standard terms negotiated with both customers and suppliers is a 30-day credit period.

Exposure to credit risk is low. All work is performed under contract terms. More than 80 per cent of trading is undertaken with the Group's immediate owner, MOD, and more than 90 per cent of trading is undertaken with Government Departments, including MOD.

It has been the Group's policy throughout the year that no trading in financial instruments shall be undertaken.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank current account facilities and investment of surplus funds in short-term, interest-bearing accounts.

The main risks arising from the Group's financial instruments are liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks. These policies have remained unchanged throughout the year. There is no interest rate risk. All investments are short term at a fixed rate.

The Group has limited transactional currency exposures. Such exposures arise from sales or purchases by an operating unit in currencies other than sterling, and for staff who are posted overseas, payment of salaries in the host currency. Foreign currency contracts require approval from the Finance Director.

The Group does not use forward currency contracts to eliminate such exposure to currency losses.

22 Analysis of changes in financing during the year

Group and Trading Fund

	Note	2008 £ million	2007 £ million
Public dividend capital			
Balance brought forward		50.4	50.4
Net movement in year		-	-
Balance carried forward	18	50.4	50.4

23 Capital commitments

	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Capital expenditure that has been contracted for but has not been provided for in the accounts	51.4	79.3	51.4	79.3
Capital expenditure that has been authorised but has not been provided for in the accounts	4.7	3.9	4.7	3.9

24 Losses and special payments

There were no losses or special payments exceeding £250,000 in the year.

There were two severance payments made during the year totalling £50,000 – one for £30,000 and another for £20,000.

25 Contingent liabilities

There are no contingent liabilities at the Balance Sheet date.



26 Related party transactions

Dstl is a trading fund owned by MOD.

MOD

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

	2008 £ million	2007 £ million
Sales	327.7	310.7
Purchases	17.2	11.1
Debtors	110.5	78.0
Creditors	7.4	8.0

Ploughshare Innovations Limited

Ploughshare Innovations Limited is a wholly-owned subsidiary undertaking of Dstl. Details are provided in Note 1c. Inter-company trading has been eliminated on consolidation using the acquisition method. During the year, the following trading occurred with Ploughshare Innovations Limited, which was carried out under contract terms:

	2008 £'000	2007 £'000
Sales and other operating income	366.1	553.8
Purchases and expenses	257.3	314.5
Debtors	1,271.4	1,270.1
Creditors	-	-

On 28 March 2008, Ploughshare Innovations Limited repaid the inter-company loan of £200,000 together with all remaining outstanding interest of £42,007. During the year, Ploughshare Innovations Limited had not used the loan arrangement to increase its borrowing. The £200,000 had been carried forward from the previous year. Of the £42,007 repayment of interest on the loan, £27,000 related to the previous year, and £15,007 related to the current year. From 6 April 2008, a new loan arrangement was in place set at an interest rate of base plus two per cent. The loan arrangement is on demand, with a total limit set at £500,000. The loan will be repayable on the third anniversary of the agreement, 6 April 2011.

An agreement was put in place during the reporting year ended 31 March 2007 transferring from Dstl, to Ploughshare Innovations Limited, all beneficial interests from its joint venture holdings in P2i Limited (formerly Porton Plasma Innovations Limited), and Leading Light Scientific Limited. Ownership of the investments has remained with the subsidiary undertaking during the current year. The Trading Fund's holdings in its joint venture with Alaska Food Diagnostics Limited transferred to Ploughshare Innovations Limited during the reporting year ended 31 March 2006. Ownership of the Trading Fund's holdings in its joint venture with Remo Technologies Limited transferred to Ploughshare Innovations Limited during the reporting year ended 31 March 2007. Ownership of the investments has remained with the subsidiary undertaking during the current year. The Trading Fund's holdings in its joint venture with Enigma Diagnostics Limited remain with the parent. Ploughshare Innovations Limited also has an investment in Enigma Diagnostics Limited. Details are provided in Note 11.



Joint ventures and associate

There has been no related party trading with the joint ventures P2i Limited (formerly Porton Plasma Innovations Limited), and Leading Light Scientific Limited. Tetricus Limited is an associate. These entities are considered to be related parties. Details of the joint ventures and associate are provided in Notes 1(c), (d), (e), and 11. During the year, the following trading occurred with these entities, carried out under contract terms:

	Sales		Purchases		Debtors		Creditors	
	2008	2007	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£	£	£
Acolyte Biomedica Ltd	-	2,340	-	-	-	-	-	-
Alaska Food Diagnostics Ltd	5,622	-	-	-	-	-	-	-
Enigma Diagnostics Ltd	1,088	-	263,000	-	-	-	-	-
Remo Technologies Ltd	-	-	87,727	-	-	-	-	-
Tetricus Ltd	133,882	129,308	12,663	16,998	34,430	-	-	-

During the year ended 31 March 2007, all of the Group's holdings in Acolyte Biomedica Limited were sold. Acolyte Biomedica Limited is no longer considered to be a related party.

Other public sector bodies

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

- British National Space Centre
- Department for Environment, Food and Rural Affairs
- Department of Health
- Department for Business Enterprise and Regulatory Reform
- Engineering and Physical Sciences Research Council
- Government Communications Bureau
- Health Protection Agency
- Home Office

27 Post-balance sheet events

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



28 Reconciliation of operating profit to operating cash flows

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Operating profit as per profit and loss account		13.7	19.0	14.3	19.8
Depreciation charge on owned tangible fixed assets	3, 10	7.3	7.2	7.3	7.2
Adjustment/downward valuation of tangible fixed assets	3, 10	1.9	1.1	1.9	1.1
Increase in stocks		(0.6)	(0.6)	(0.7)	(0.7)
(Increase)/decrease in debtors		(39.1)	1.7	(39.1)	1.2
Increase/(decrease) in creditors due within one year		19.7	(4.5)	19.6	(4.5)
Decrease in creditors due after more than one year		(0.4)	(1.0)	(0.4)	(1.0)
Increase in long-term provisions		0.6	0.4	0.6	0.4
Net cash inflow from operating activities		3.1	23.3	3.5	23.5

29 Reconciliation of net cash flow to movement in net funds

	Note	2008 Group £ million	2007 Group £ million	2008 Trading Fund £ million	2007 Trading Fund £ million
Increase/(decrease) in cash and liquid resources	21	(28.3)	9.2	(27.8)	8.5
Changes in net funds		(28.3)	9.2	(27.8)	8.5
Balance brought forward		87.9	78.7	87.2	78.7
Balance carried forward		59.6	87.9	59.4	87.2

30 Analysis of net funds

Group	Note	1 April 2007 £ million	Cash flows £ million	31 March 2008 £ million
Cash	21	0.4	0.5	0.9
Short-term deposits	21	87.5	(28.8)	58.7
Cash and cash equivalents		87.9	(28.3)	59.6
Debt due within one year		-	-	-
Debt due after one year		-	-	-
Debt		-	-	-
Total		87.9	(28.3)	59.6
Trading Fund				
Cash	21	0.4	0.5	0.9
Short-term deposits	21	86.8	(28.3)	58.5
Cash and cash equivalents		87.2	(27.8)	59.4
Debt due within one year		-	-	-
Debt due after one year		-	-	-
Debt		-	-	-
Total		87.2	(27.8)	59.4



Five-year summary

This information is not subject to audit.

	Group* 2008 £ million	Group* 2007 £ million	Group* 2006 £ million	2005 £ million	2004 £ million
Profit and Loss					
Turnover	379.9	367.1	353.4	353.3	358.1
Operating profit before impairments	14.3	20.1	18.7	23.2	19.8
Impairments/exceptional items	(0.6)	(1.1)	-	(4.7)	-
Loss on disposal of fixed assets	-	-	-	(0.3)	(0.1)
Interest receivable	4.6	4.1	3.1	2.0	1.0
Interest payable	-	-	-	-	(0.2)
Profit for the financial year	18.3	23.1	21.8	20.2	20.5
Dividends	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Retained profit for the year	15.3	20.1	18.8	17.2	17.5
Balance Sheet					
Fixed assets	171.5	134.3	124.6	122.9	125.5
Working capital	40.7	26.4	21.3	22.1	34.4
Cash and cash equivalents	59.6	87.9	78.7	61.9	26.6
Creditors: amounts falling due after more than one year	(0.7)	(1.1)	(2.1)	(2.8)	(4.4)
Provisions for liabilities and charges	(5.5)	(4.9)	(4.5)	(5.2)	(5.6)
Government funds	265.6	242.6	218.0	198.9	176.5
Cash Flow					
Cash inflow/(outflow) from operating activities	3.1	23.3	22.4	43.5	11.3
Net cash inflow from returns on investments and servicing of finance	4.8	4.1	3.0	1.9	0.8
Capital expenditure and financial investment	(33.2)	(15.2)	(5.6)	(6.0)	(7.1)
Dividends paid	(3.0)	(3.0)	(3.0)	(3.0)	(6.0)
Cash inflow/(outflow) before financing	(28.3)	9.2	16.8	36.4	(1.0)
Net cash outflow from financing	-	-	-	(1.1)	(2.1)
Increase/(decrease) in cash	(28.3)	9.2	16.8	35.3	(3.1)
Return on Capital Employed	5.3%	8.1%	8.8%	9.4%	11.9%

*The Group includes consolidation of wholly-owned subsidiary undertaking, Ploughshare Innovations Limited.



Dstl Board at 31 March 2008



Richard Maudslay
Non-Executive Chairman



Frances Saunders
Chief Executive



Mark Hone
Finance Director



Peter Starkey
Future Business Director
Deputy Chief Executive



Michael Steeden
Technical Director



Jill Cook
Operations Director



Roger Platt
Non-Executive Director



**Admiral Sir Nigel
Essenhigh**
Non-Executive Director



**Professor
Patrick Dowling**
Non-Executive Director



Christopher Swinson
Non-Executive Director



Lord Robert May
Non-Executive Director



Huw Walters
Non-Executive Director

Dstl Executive at 31 March 2008



Frances Saunders
Chief Executive



Mark Hone
Finance Director



Peter Starkey
Future Business Director
Deputy Chief Executive



Michael Steeden
Technical Director



Jill Cook
Operations Director



Ruth Davies
Human Resources and
Communications Director



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