

Babcock Aerospace Limited
Annual report and financial statements
for the year ended 31 March 2024

Company registration number: **03887962**

Babcock Aerospace Limited

COMPANY INFORMATION

Directors	C Barker N Borrett C Cole
Company secretary	Babcock Corporate Secretaries Limited
Registered Number	03887962
Registered office	33 Wigmore Street London W1U 1QX
Independent auditor	Deloitte LLP Four Brindleyplace Birmingham B1 2HZ

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Babcock Aerospace Limited

Strategic report for the year ended 31 March 2024

The Directors present their Strategic report on the Company for the year ended 31 March 2024.

Principal activities

The Company's principal activities continued to be providing technical support and training, procurement services and infrastructure support predominantly in the field of military aircraft maintenance and repair.

Business review

	2024	2023
	£'000	£'000
		*Restated
Revenue	108,629	98,183
Profit/(loss) for the financial year	11,845	1,037
Net Assets	41,185	29,340

*In the year ended 31 March 2024, the Company restated the prior year financial information. Details of the restatement are contained in note 16.

Over the course of the current and prior year, the Company continued to perform in line with expectations.

The provision of maintenance and ground crew training in support of the Royal Air Force (RAF) Hawk TMk2 fleet contract continued during the year. The contract with BAE Systems PLC is a Qualifying Sub-Contract under the SSRO rules and continues to 2033.

The Company continues to provide technical engineering and support services to the Royal Air Force, across a number of locations throughout the UK, under the HADES contract. The contract to provide support continues to March 2025. Follow-on contracts under SSRO rules were signed in September 2024.

The Company is also continuing to provide flight training services to the UK Armed Forces under its UK Light Aircraft Flying Task (LAFT) contract with a contract in place to continue the service through to March 2026.

The Company is providing services in support of Ascent, a joint venture of Babcock International and Lockheed Martin, to support the delivery of the Military Flight Training System (MFTS) programme in partnership with the UK Ministry of Defence (MOD). During the year the management of construction works following the Strategic Defence and Security Review concluded. The Company is contracted to continue to provide services to 2033.

The Company is also contracted to provide services in support of Airtanker Services Limited under a 27 year agreement ending in 2035.

In April 2023 Babcock was selected to work with the RAFs Rapid Capability Office and launched Project Monet. The contract will be managed through Babcock Aerospace Limited. This project is tasked with exploring emerging technologies to minimise the environmental impact of light aircraft flight training and will support the RAF's goal of achieving net zero emissions by 2040 and is due to reach its conclusion in Dec 2024.

Striving for, and maintaining, an excellent Health and Safety record remains a fundamental objective across all the sites the Company operates at. Improved safety culture, reporting of incidents and near misses, and safety standards are being addressed through companywide live sessions managed by the operational leadership team, with a focus on empowering individuals to intervene if unsafe practices are witnessed. The Company has implemented training resources, tailored to the specific activities undertaken by the business.

The financial position of the Company has strengthened during the year ended 31 March 2024 with net assets increasing £11.845m or 38.3% on the 2023 closing position. This is mainly due to a decrease in the amounts due to group companies from £50.0m to £33.7m, partially offset by a decrease in amounts due from group companies from £68.2m to £61.2m due to a settlement of group loan positions.

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Strategic report for the year ended 31 March 2024 (continued)

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2024, which does not form part of this report.

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. The Company's business is susceptible to individual contract performance. All of the Company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The Directors manage this risk by meeting on a regular basis to discuss these risks.

The macro-economic environment remains volatile, although there are signs that the extreme inflationary pressures experienced over the last year are now receding. Approximately two-thirds of our revenue base has measures for protection against inflation. The remainder are, "firm", fixed-price contracts which retain some inflation risk. These are relatively short term (within 2 years), giving us the opportunity to renegotiate these with improved terms. The Company's largest exposure to inflation is rising labour costs (approximately 93% of the cost base of the "firm" fixed-price contracts). The company continues to offer pay deals in line with inflation but which can be covered within the revenue from the contracts.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 89 to 106 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The growth and performance of Aviation, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 56 to 59 of the annual report of Babcock International Group PLC, which does not form part of this report.

We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2024	2023
Revenue Year on Year	10.6%	-7.7%
Operating Return on Revenue	9.9%	1.6%
Order Book	£503.61m	£532.70m

Revenue Year on Year

The main factors for the increase in revenue from the prior year are:

- MFTS – £7.45m additional revenue from construction projects plus inflationary uplifts and the extension of the RCT contract.
- LAFT - £1.17m additional spares and repairs.
- Hades – £0.52m higher extra to contract tasking year on year.
- Project Monet £1.2m – a two year project linked to the future of the LAFT programme.

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Strategic report for the year ended 31 March 2024 (*continued*)

Key performance indicators (*continued*)

Operating Return on Revenue

Operating profit expressed as a percentage of revenue has increased in the year by 8.3 percentage points. The main factors affecting this are:

- Increased gross margin on the contracts from 14% to 17%
- Increases in gross margin % on MFTS and FSTA have been offset by reduced gross margin % on Hawk and LAFT

Order Book

The order book decrease in the current year reflects the rundown of the current contracts; each year small orders are received for additional work against these contracts.

S172(1) Statement and Stakeholder engagement

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of a company to act in the way they consider, in good faith, would most likely promote the success of the Company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

- a) the likely consequences of any decision in the long term,
- b) the interests of the Company's employees,
- c) the need to foster the Company's business relationships with suppliers, customers and others,
- d) the impact of the Company's operations on the community and the environment,
- e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
- f) the need to act fairly as between members of the Company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 60, 61 and 119 of the annual report of Babcock International Group PLC, which does not form part of this report.

Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term, whilst maintaining a high standard of business conduct. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

Why they matter to us

The future success of the Company is driven by the long-term relationships with our customers. The Directors are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

What matters to them

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

Strategic report for the year ended 31 March 2024 (*continued*)

S172(1) statement and stakeholder engagement (*continued*)

Customers (*continued*)

How the Company engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Strategic Partnership programme
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Investors

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active Investor Relations and Treasury team.

Suppliers

Why they matter to us

The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the Company's implementation of the Group-wide Procurement Strategy as described on pages 16 to 17 and 86 to 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How the Company engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and 'lunch and learn' sessions
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

Regulators

Why they matter to us

We are committed to providing safe and effective operations. We must maintain positive and constructive relationships with regulators to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

Strategic report for the year ended 31 March 2024 (*continued*)

S172(1) statement and stakeholder engagement (*continued*)

Regulators (*continued*)

How the Company engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

Employees

Why they matter to us

Employee engagement is a primary focus for the Directors of the Company. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Company's implementation of the Group-wide People Strategy as described on pages 12 to 17 and 80 to 84 of the annual report of Babcock International Group PLC, which does not form part of this report.

What matters to them

- Remuneration and reward
- Professional development
- The Company's aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

How the Company engages

- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and board visits
- Free confidential employee support helpline

Strategic report for the year ended 31 March 2024 (continued)

S172(1) statement and stakeholder engagement (continued)

Communities

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy.

Sustainability and environment

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040.
2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.
3. We will ensure the safety and wellbeing of all our people.
4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.
5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action remains a key focus. Building on our Group wide climate-related risk management process from last year, which considered the following time horizons: short (present to 2030), medium (2030 to 2040), and long-term horizons (2040 to 2100), sectors and regions considered the insight and recommendations from the KPMG climate-related risk assessment report and identified the immediate actions required in their five-year strategic plans to support corporate commitments. These included Net Zero, wider environmental targets, and to address key climate-related risks and opportunities.

These activities form part of the Group-wide ESG Strategy as described on pages 62 to 88 of the annual report of Babcock International Group PLC, which does not form part of this report.

This report was approved by the board on 5 December 2024 and signed on its behalf by:



C Cole
Director

Babcock Aerospace Limited

Directors' report for the year ended 31 March 2024

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2024.

Dividends

No interim dividend payment has been made for this financial year (2023: £nil). No final dividend for the year ended 31 March 2024 is proposed by the directors (2023: £nil).

Directors and their interests

The directors who held office during the year and up to the date of signing the annual report were as follows:

H Belmore	(Resigned 28 September 2023)
C Barker	(Appointed 28 September 2023)
N Borrett	
S Ward	(Resigned 7 June 2024)
C Cole	(Appointed 10 June 2024)

The Board is not aware of any contract of significance in relation to the Company in which any Director has, or has had, a material interest.

Future developments

The directors remain confident that the Company will continue to benefit from the strength of its relationship with the MOD. Although a number of contracts are nearing completion, discussions are already taking place about extensions.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Directors' and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group, it participates in centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £34.65m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective group companies confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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Directors' report for the year ended 31 March 2024 (*continued*)

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discussed in detail within the annual report for Babcock International Group PLC, which does not form part of this report.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing groups and the distribution of the annual report.

Employees

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 12 to 17 and 81 to 84 of the annual report for Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 7 of the Strategic Report.

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

Research and development

The Company commits resources to research and development to the extent management considers reasonable for the evolution and development of the business.

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2024 of its ultimate parent, Babcock International Group PLC.

Engagement with suppliers and customers

Engagement with customers and suppliers has been considered in the Strategic Report on pages 5 to 6.

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Directors' report for the year ended 31 March 2024 (continued)

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Qualifying third party indemnity provisions

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

Post balance sheet events

There have been no significant events affecting the Company since the year end.

Statement of disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

Appointment of auditors

Deloitte LLP are not seeking reappointment as auditors of the Company and a resolution appointing Forvis Mazars LLP as their replacement has been proposed and approved at the Annual General Meeting.

This report was approved by the board on 5 December 2024 and signed on its behalf by:



C Cole
Director

Babcock Aerospace Limited

Statement of Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Babcock Aerospace Limited

Independent auditor's report to the members of Babcock Aerospace Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Babcock Aerospace Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Babcock Aerospace Limited

Independent auditor's report to the members of Babcock Aerospace Limited

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Statement of Directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Babcock Aerospace Limited

Independent auditor's report to the members of Babcock Aerospace Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax and pension legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists, including tax, pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud or non-compliance with laws and regulations in the following areas, and our specific procedures performed to address them are described below:

Revenue and margin recognition on key long-term contracts with significant management judgment

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Obtaining an understanding of the contract including relevant contractual clauses and terms and conditions;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- Enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at the reported position.

Independent auditor's report to the members of Babcock Aerospace Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance and reviewing internal audit reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

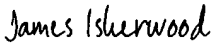
We have nothing to report in respect of these matters.

Babcock Aerospace Limited

Independent auditor's report to the members of Babcock Aerospace Limited

USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signed by:

19750BCA07604EA...

James Isherwood ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
5 December 2024

Babcock Aerospace Limited

Income statement for the year ended 31 March 2024

	Note	2024 £'000	2023 £'000
Revenue	4	108,629	98,183
Cost of Revenue		(90,416)	(84,373)
Gross profit		18,213	13,810
Administration and distribution expenses		(7,480)	(12,238)
Operating profit	5	10,733	1,572
Finance income	6	1,671	-
Finance costs	6	(517)	(504)
Profit/(loss) before taxation		11,887	1,068
Income tax expense	9	(42)	(31)
Profit/(loss) for the financial year		11,845	1,037

The notes on page 21 to 46 form part of these financial statements.

All of the above results derive from continuing operations.

There have been no other comprehensive gains/losses during either the current or prior year other than as disclosed in the income statement and therefore no separate statement of comprehensive income has been presented.

Babcock Aerospace Limited

Statement of financial position as at 31 March 2024

	Note	2024 £'000	2023 £'000 *Restated
Fixed assets			
Intangible assets	10	22,850	22,850
Property, plant and equipment	11	4,673	4,513
Right-of-use assets	12	302	321
Trade and other receivables	14	43,352	5,020
		71,177	32,704
Current assets			
Inventories	13	1,884	1,459
Trade and other receivables	14	40,661	85,073
Cash and cash equivalents		1,021	25
		43,566	86,557
Creditors: amounts falling due within one year			
Lease liabilities	12	(88)	(129)
Trade and other payables	15	(72,430)	(88,815)
		(28,952)	(2,387)
Net current liabilities			
		(28,952)	(2,387)
Total assets less current liabilities			
		42,225	30,317
Creditors: amounts falling due after more than one year			
Lease liabilities	12	(221)	(199)
Deferred tax	9	(820)	(778)
		(1,041)	(977)
Net assets			
		41,185	29,340
Capital and reserves			
Called up share capital	17	3,000	3,000
Share premium account		9,000	9,000
Retained earnings		29,185	17,340
		41,185	29,340

*In the year ended 31 March 2024, the Company restated the prior year financial information. Details of the restatement are contained in note 16.

The notes on pages 21 to 46 are an integral part of these financial statements.

The financial statements on pages 18 to 46 were approved and authorised for issue by the board of Directors on 5 December 2024 and signed on its behalf by:



C Cole
Director

Babcock Aerospace Limited

Statement of changes in equity as at 31 March 2024

	Called-up share capital £'000	Share premium account £'000	Retained earnings £'000	Total Shareholders' funds £'000
Balance at 31 March 2022 previously stated	3,000	9,000	17,924	29,924
Prior year restatement	-	-	(1,621)	(1,621)
Balance at 31 March 2022 restated	3,000	9,000	16,303	16,303
Profit for the financial year and total comprehensive income	-	-	1,037	1,037
Balance at 31 March 2023 restated	3,000	9,000	17,340	29,340
Profit for the financial year and total comprehensive income	-	-	11,845	11,845
Balance at 31 March 2024	3,000	9,000	29,185	41,185

In the year ended 31 March 2024, the Company restated the prior year financial information. Details of the restatement are contained in note 16.

Babcock Aerospace Limited

Notes to the financial statements

1 General information

Babcock Aerospace Limited is a private company limited by shares, which is incorporated and domiciled in England and Wales, UK. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

Its ultimate controlling party is disclosed in note 24. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Where relevant, equivalent disclosures have been given in the group accounts of Babcock International Group PLC. In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions have been taken:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'.
- b) IFRS 7, 'Financial instruments: Disclosures'.
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.
- f) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).
- g) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
- h) IAS 7, 'Statement of cash flows'
- i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
- j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation.
- k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Basis of preparation (*continued*)

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company intends to continue to prepare its financial statements in accordance with FRS 101.

The financial statements have been prepared under the historical cost convention.

Adoption of new and revised standards

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the consolidated financial statements:

- IFRS 17, '*Insurance Contracts*': IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IAS 1, '*Presentation of Financial Statements*': The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies.
- Amendments to IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors*': The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates.
- Amendments to IAS 12, '*Income Taxes*': The amendments introduce a further exception from the initial recognition exemption.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Company:

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IAS 1: Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

All standards listed above will be adopted with effect from 1 April 2024 with the exception of the Amendments to IFRS 10 and IAS 28 for which the mandatory effective date has not yet been set by the IASB.

Going concern

The Company's business activities, together with the factors likely to affect its future development and financial position are set out within the Directors' and Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the Directors have highlighted as significant to the business.

As the Company is part of a larger group, it participates in centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £34.65m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective other group companies to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Going concern *(continued)*

Given the above assessment, the Directors are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of the Company's activities. The Company recognises revenue in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, determination of contract price, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them either on their own or together with other resources readily available to the customer and they are separately identifiable in the contract.

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted. The integrated output nature of many of the services provided by the Company results in some contracts only having one performance obligation.

(b) Determination of contract price

The contract price represents the amount of consideration which the Company expects to be entitled in exchange for delivering the promised goods or services to the customer. Contracts can include both fixed and variable consideration.

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/over spends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that such variable consideration is not considered highly probable.

Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Revenue (*continued*)

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Company provides, standalone selling prices are generally not observable and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) Revenue and profit recognition

Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation; whether it is satisfied over time or at a point in time.

Revenue recognised over time

Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Company's performance as it performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done; or
- the Company's performance creates or enhances an asset controlled by the customer.

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the amount of revenue recognised by the Company (as measured by the methods described above) exceed the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (h) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time

If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Company.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Revenue (*continued*)

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured as provisions. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations

The Company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

Accounting for contract modifications

The Company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:

1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Company considers the scope of the contract modification in the context of the contract scope and contract terms. Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Revenue (*continued*)

(e) Contract modifications (*continued*)

Accounting for contract modifications (*continued*)

Contract claims are also considered to be contract modifications in accordance with IFRS 15, and revenue is subject to constraint as outlined in section (b).

Claims and variations which are not deemed to be contract modifications

Claims can also be raised by Babcock against third-party sub-contractors or suppliers to the Company. As these do not relate to contracts with customers, but rather relate to contracts with suppliers, they are not accounted for under IFRS 15. The Company's accounting policy is to account for such claims in accordance with the contingent asset guidance per IAS 37. Income in relation to these claims will only be recognised once it is virtually certain.

(f) Costs of obtaining a contract

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

(g) Costs to fulfil a contract

Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

- i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
- ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
- iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

(h) Contract assets and liabilities

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Finance costs

Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Finance income

Finance income is recognised in the period to which it relates using the effective interest rate method.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Employee benefits

(a) Pension obligations

Defined contribution schemes

The Company participates in a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

(b) Share-based compensation

The Company operates equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

(c) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned.

Taxation

(a) Current income tax

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back.

In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Taxation *(continued)*

(b) Deferred income tax *(continued)*

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight-line basis as follows:

(a) Goodwill

Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

The Company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead, an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each financial year end), at the following annual rates:

Plant and equipment	33.3% to 10%
Aircraft fleet	3% to 10%, except as noted below where purchased for specific projects.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the year-end date. Where the residual value of the asset increases to an amount that exceeds the asset's carrying amount, the depreciation charge is zero until its residual value subsequently decreases to an amount below the asset's carrying amount. Where there is an amendment to the residual value or useful economic life of the Company's aircraft fleet from previous estimations, the change is accounted for as a change in accounting estimate in accordance with IAS 8. The amendment is recognised prospectively to the period of change and, where relevant, future periods.

Where property, plant and equipment is purchased for specific projects and the remaining project life is less than the above period, the asset is written off over the remainder of the project life.

Property, plant and equipment is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the fixed assets may not be recoverable. An asset's recoverable amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Leases

(a) The Company as lessee

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognises a right of use asset and corresponding lease liability at commencement of the lease. The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

The right of use asset is initially recorded at cost, being equal to the lease liability, adjusted for any initial direct costs, lease payments made prior to commencement date, lease incentives received and any dilapidation costs. Depreciation of right of use assets is recognised as an expense in the income statement on a straight-line basis over the shorter of the asset's useful life or expected term of the lease.

Right of use assets arising from sale and leaseback transactions are measured at the proportion of the previous carrying amount of the asset that relates to the right of use retained by the Company. Gains arising on sale and leaseback transactions are recognised to the extent that they relate to the rights transferred to the buyer-lessor whilst losses arising on sale and leaseback transactions are recognised in full.

Right of use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, with the impairment expense being recognised in the income statement. Where a lease is terminated early, any termination fees or gain or loss relating to the release of right of use asset and lease obligation are recognised as a gain or loss through the income statement.

Payments in respect of short-term leases not exceeding 12 months in duration or low-value leases are expensed straight line to the income statement as permitted by IFRS 16, 'Leases'.

Impairment of non-current assets

Goodwill and indefinite life intangibles are reviewed for impairment at least annually. For all other non-financial non-current assets (including acquired intangible assets, capitalised development costs, software assets, property, plant and equipment and right of use assets) the Company performs impairment testing where indicators of impairment are identified. Impairment testing is performed at the individual asset level. Where an asset does not generate cash flows that are separately identifiable from other assets, the Company estimates the recoverable amount of the CGU (Cash-Generating Unit) to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

Cash and cash equivalents

Company cash and cash equivalents consist of cash at bank and cash in hand, together with short-term deposits with an original maturity of three months or less and money market funds.

Trade and other receivables

Trade and other receivables are stated at their cost less provision for bad debts. A provision for bad debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Trade and other receivables (including amounts due from group undertakings) are also stated at their cost less expected credit losses. A provision for expected credit losses is established under IFRS 9 when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

Current intercompany trade receivables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due from group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans receivable at the balance sheet date that are settled within twelve months are recorded as current assets.

Trade and other payables

Trade and other payables are stated at actual cost, or estimated cost in respect of accruals.

Current intercompany trade payables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due to group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans payable at the balance sheet date that are settled within twelve months are recorded as current liabilities.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of material accounting policies (*continued*)

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods.

Financial instruments

(a) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other receivables are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other receivables, the Company measures the provision at an amount equal to 12-month expected credit losses.

Trade and other payables, amounts due to related parties, other payables, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Company balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

There have been no changes to the valuation techniques used during the year.

Dividends

Dividends are recognised as a liability in the Company's financial statements in the period in which they are approved. Interim dividends are recognised when paid.

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements, judgements and estimates have been made in applying the Company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Company's key judgements involving estimates are included in the key sources of estimation uncertainty section.

Acting as principal or agent

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

Key sources of estimation uncertainty

The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are set out below:

Revenue and profit recognition

- **Stage of completion & costs to complete**

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. As an indicative sensitivity analysis for one of the Company's key contracts, if the customer were to request additional items which increased internal IT costs by 10% (c£300k) each year, this would increase contract costs by c£3.3m over the remainder of the contract, leading to a reversal of revenues and increase of losses recognised to date of up to c£1.1m (reducing percentage of completion of costs from 36.7% at 31 March 2024 to 35.6%).

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Revenue and profit recognition *(continued)*

- **Variable consideration**

The Company's contracts are subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.

- **Inflation**

The level to which the Company revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2024 £'000	2023 £'000	2024 £'000	2023 £'000	2024 £'000	2023 £'000
	Technical support and training	Technical support and training	Procurement services and infrastructure support	Procurement services and infrastructure support	Total	Total
By area of activity:						
Provision of services - transferred over time	46,715	44,956	61,914	53,227	108,629	98,183

All the revenue in the year ending 31 March 2024 and in the year ending 31 March 2023 originated in the United Kingdom.

5 Operating profit

Operating profit is stated after charging / (crediting):

	2024 £'000	2023 £'000
Depreciation of property, plant and equipment (Note 11)	121	140
Right of use depreciation (Note 12)	148	200
Inventory recognised as an expense (Note 13)	2,222	2,022
Operating lease charges - short term leases	347	670
Foreign exchange (gains)	(115)	-
Intellectual property royalty charge	1,705	1,514

Fees paid to the company's auditors, Deloitte LLP and its associates are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. Audit fees of £196k (2023: £196k) were borne by a fellow group company.

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

6 Finance income and costs

	2024	2023
	£'000	£'000
Finance income:		
Loan interest receivable from group undertakings	1,671	-
Finance costs:		
Lease interest	18	16
Loan interest payable to group undertakings	499	488
	517	504

7 Staff

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2024	2023
	Number	Number
By activity:		
Operations	1,592	1,652
Management and administration	44	89
	1,636	1,741

Their aggregate remuneration comprised:

	2024	2023
	£'000	£'000
Wages and salaries	50,530	53,250
Social security costs	6,709	7,189
Pension costs – defined contribution plans (Note 21)	4,598	4,945
	61,837	65,384

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

8 Directors' emoluments

The emoluments of the Directors, including pension contributions, paid in respect of services provided to the Company were as follows:

	2024	2023
	£'000	£'000
Remuneration (including benefits in-kind)	199	433
Defined contribution pension scheme	18	18
	<u>217</u>	<u>451</u>

During the year no (2023: no) Director remunerated by Babcock Aerospace Limited exercised share options under long term incentive plans and no (2023: no) Director was entitled to receive share options under long term incentive plans.

Pension contributions were made in respect of two (2023: two) Directors. The total value of Company contributions paid to the scheme during the year in respect of directors' qualifying services was £18k (2023: £18k).

Five Directors held office at some point during the year and up to date of signing the annual report. Except for two (2023: two) Directors, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

The above amounts include the following in respect of the highest paid Director:

	2024	2023
	£'000	£'000
The emoluments of the director paid by the Company were as follows:		
Remuneration (including benefits in-kind)	128	241
Defined contribution pension scheme	9	9
	<u>137</u>	<u>250</u>

The highest paid Director did not exercise shares under long term incentive plans (2023: did not exercise shares under long term incentive plans).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

9 Tax

Income tax expense

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Analysis of tax expense in the year		
Current tax		
• UK current year expense	-	-
	-	-
Deferred tax		
• UK current year expense	43	24
• UK prior year (benefit)	(1)	(1)
• Impact of changes in tax rates	-	8
	42	31
Total income tax expense	42	31

The tax for the year is lower (2023: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Profit before tax	11,887	1,068
Profit multiplied by rate of corporation tax in the UK of 25% (2023: 19%)	2,972	203
Effects of:		
Adjustment in respect of deferred tax for prior years	(1)	(1)
Impact of change in UK tax rate	-	8
Group relief claimed for nil consideration	(2,929)	(179)
	42	31
Total income tax expense	42	31

On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2024 that are expected to reverse after 1 April 2024 have been calculated at 25%.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

9 Tax (*continued*)

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Deferred tax liability	(820)	(778)

The movements in deferred tax assets and liabilities during the year are shown below.

	Tangible assets £'000	Other £'000	Total £'000
At 1 April 2023	814	(36)	778
Income statement charge	38	4	42
At 31 March 2024	852	(32)	820
At 1 April 2022	780	(33)	747
Income statement charge	34	(3)	31
At 31 March 2023	814	(36)	778

Deferred tax liabilities have been recognised in respect of accelerated capital allowances and other short term timing differences.

The Company has applied the temporary exception from the accounting requirements for the deferred taxes in IAS12, so that the Company neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

10 Intangible assets

	Goodwill	Total
	£'000	£'000
Cost		
At 1 April 2023	22,850	22,850
At 31 March 2024	22,850	22,850
Accumulated amortisation and impairment		
At 1 April 2023	-	-
At 31 March 2024	-	-
Net book value		
At 31 March 2024	22,850	22,850
At 31 March 2023	22,850	22,850

With effect from 1 April 2012, Babcock Aerospace Limited acquired contracts from three companies within the Group (Babcock Support Services Limited, Babcock Communications Limited and Babcock Flagship Limited). £22,850k is the remaining cost of goodwill as at the date of transition to FRS101 (£36,974k at acquisition). The financial statements depart from the requirements of the Companies Act 2006 to amortise goodwill over a finite period in order to give a true and fair view as required by FRS 101. The Directors have judged that the longevity of the Company's activities with the UK Government indicate there is no foreseeable limit to the potential cash-generation derived from the current goodwill balance.

A current year impairment review was carried out on the Company's goodwill, which did not result in any impairment. The recoverable amount of goodwill was assessed by reference to value in use calculations derived from risk-adjusted cash flows based on a five-year plan.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

11 Property, plant and equipment

	Aircraft & components £'000	Plant & equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 April 2023	12,383	1,392	1,382	15,157
Additions	-	-	281	281
Transfers	324	-	(324)	-
At 31 March 2024	12,707	1,392	1,339	15,438
Accumulated depreciation				
At 1 April 2023	(9,252)	(1,392)	-	(10,644)
Charge for the year	(121)	-	-	(121)
At 31 March 2024	(9,373)	(1,392)	-	(10,765)
Net book value				
At 31 March 2024	3,334	-	1,339	4,673
At 31 March 2023	3,131	-	1,382	4,513

The Directors have judged that £121k depreciation is required to be charged against the Company's aircraft in the year (2023: £140k) as their net book value was in excess of their revised residual value. This is supported by the determination of the residual value based on a market valuation performed by an independent third party in the current year.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

12 Leases

Right-of-use assets

The Company leases vehicles under non-cancellable lease arrangements.

	Vehicles £'000	Total £'000
Cost		
At 1 April 2023	585	585
Additions	227	227
Terminations	(326)	(326)
At 31 March 2024	486	486
Accumulated depreciation		
At 1 April 2023	(264)	(264)
Charge for the year	(148)	(148)
Terminations	228	228
At 31 March 2024	(184)	(184)
Net book value		
At 31 March 2024	302	302
At 31 March 2023	321	321

Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2024 £'000	2023 £'000
At 1 April	328	199
Additions	227	331
Disposals	(102)	-
Interest charged	18	16
Payments	(162)	(218)
At 31 March	309	328

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

12 Leases *(continued)*

Lease liabilities *(continued)*

Discounted future minimum lease payments are as follows:

	31 March	31 March
	2024	2023
	£'000	£'000
Within one year	88	129
In more than one year, but not more than five years	221	199
Carrying value of liability	309	328

The Company had total cash outflows for leases of £162k for the year ended 31 March 2024 (2023: £218k).

The following are the amounts recognised in profit or loss:

	31 March	31 March
	2024	2023
	£'000	£'000
		*Restated
Depreciation expense on right to use assets	148	200
Interest expense on lease liabilities	18	16
Expense relating to short-term leases	347	670
	513	886

* In the year ended 31 March 2024, the Company restated the prior year financial information for Expense relating to short-term leases to agree to the correct amount disclosed in Note 5. This affected the above disclosure only and, as there is no impact on the Income statement, Statement of financial position or Statement of changes in equity, this has not been included in Note 16.

13 Inventories

	31 March	31 March
	2024	2023
	£'000	£'000
Raw materials	1,884	1,459

Inventories are stated after provisions for impairment of £129k (2023: £145k).

The cost of inventory recognised as an expense and included in 'cost of revenue' amounted to £2,222k (2023: £2,022k).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

14 Trade and other receivables

	31 March 2024 £'000	31 March 2023 £'000 *Restated
Amounts due after more than one year:		
Amounts due from group undertakings	40,763	-
Contract assets	2,589	5,020
	43,352	5,020
Amounts falling due within one year:		
Trade receivables	3,230	5,359
Contract assets	9,801	7,686
Amounts due from group undertakings	20,603	68,183
Amounts due from related parties (Note 20)	1,600	607
Other receivables	25	186
Prepayments and accrued income	5,402	3,052
	40,661	85,073

*In the year ended 31 March 2024, the Company restated the prior year financial information. Details of the restatement are contained in note 16.

Amounts due from Group undertakings are all due from fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:

- One prior year loan of £55,124k has been settled as a result of loan rationalisation in the year, with no interest charge.
- One loan of £40,763k (2023: £nil) is repayable in November 2028 and the interest rate is LIBOR plus 1.5%.
- Debtors totalling £745k (2023: £715k)
- Dividend debtors £1,621k (2023: £1,621k) less provision for expected credit loss £1,621k (2023 restated: £1,621k).
- Debtors related to the implementation of zero balancing bank accounts £19,858k (2023: £9,245k)

Trade receivables are stated after provisions for impairment of £nil (2023: £nil).

Current intercompany receivables are expected to be settled in the Company's usual operating cycle of 12 months or less.

The Group recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 3. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

Babcock Aerospace Limited

Notes to the financial statements *(continued)*

14 Trade and other receivables *(continued)*

Significant changes in contract assets during the year are as follows:

	£'000
At 1 April 2023	12,706
Transfers from contract assets recognised at the beginning of the year to receivables	(7,686)
Increase due to work done not transferred from contract assets	7,370
At 31 March 2024	12,390
	£'000
At 1 April 2022	20,000
Transfers from contract assets recognised at the beginning of the year to receivables	(14,260)
Increase due to work done not transferred from contract assets	6,966
At 31 March 2023	12,706

15 Trade and other payables

	2024 £'000	2023 £'000
Amounts falling due within one year:		
Trade payables	582	463
Contract liabilities	25,442	23,119
Amounts due to group undertakings	33,718	49,984
Other taxation and social security	3,048	5,934
Amounts due to related parties (Note 20)	181	-
Accruals	3,770	2,194
Deferred Income	5,685	7,213
Other payables	4	(92)
	72,430	88,815

Amounts due to Group undertakings are all due to fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:

- One prior year loan of £11,300k has been settled as a result of loan rationalisation in the year. The interest rate on this loan was LIBOR plus 1.5%.
- All other amounts due from group undertakings are unsecured and repayable on demand.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (Note 22).

Significant changes in contract liabilities during the year are as follows:

	£'000
At 1 April 2023	23,119
Amount accrued	25,442
Amount utilised	(23,119)
At 31 March 2024	25,442
	£'000
At 1 April 2022	15,668
Amount accrued	23,119
Amount utilised	(15,668)
At 31 March 2023	23,119

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

16 Prior year restatements

In the year ended 31 March 2024, the Company restated the prior year financial information. The restatements are summarised below:

31 March 2023 – Statement of financial position (extract)

	31 March 2023 (previously published) £'000	Provision for expected credit losses £'000	31 March 2023 (restated) £'000
Assets			
Non-current assets			
Trade and other receivables	6,641	(1,621)	5,020
Total non-current assets*	34,325	(1,621)	32,704
Total assets less current liabilities*	31,938	(1,621)	30,317
Net assets*	30,961	(1,621)	29,340
 Capital and reserves			
Accumulated retained earnings at 31 March 2022	17,924	(1,621)	16,303
Accumulated retained earnings at 31 March 2023	18,961	(1,621)	17,340
Total shareholders' funds*	30,961	(1,621)	29,340

*The table above includes only those financial statement line items which have been restated. The total non-current assets, assets less current liabilities, net asset and shareholders' funds do not therefore represent the sum of the line items presented above.

In the year ended 31 March 2024, it was identified that the provision for expected credit loss on amounts due from group undertakings had been incorrectly calculated in prior years. This has been corrected through a prior year adjustment to opening retained earnings of the year ended 31 March 2023 and to non-current trade and other receivables in the statement of financial position.

17 Share capital

	31 March 2024 £'000	31 March 2023 £'000
Allotted, called up and fully paid		
3,000,000 ordinary shares of £1 each (2023: 3,000,000 ordinary shares of £1 each)	3,000	3,000

18 Dividends

Dividends declared and paid were £nil (2023: £nil), equivalent to £nil per share (2023: £nil). There are no plans for a final dividend.

19 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2024 the Company had capital commitments of £nil (2023: £nil).

b) Lease Commitments

At 31 March 2024 the Company had lease commitments of £nil for leases not yet commenced (2023: £nil).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

20 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

The Company entered into transactions in the ordinary course of business with Ascent Flight Training (Management) Limited, Advanced Jet Training Limited, Rear Crew Training Limited, Rotary Wing Training Limited and Airtanker Services Limited. All are joint venture undertakings in which 50% shareholding is held by a fellow group company, except for 23.51% shareholding in Airtanker Services Limited (2023: 23.51%). All shareholdings in related parties are in the form of Ordinary shares.

Transactions entered into with parties who are not wholly owned subsidiaries of Babcock International Group PLC and trading balances outstanding at 31 March 2024 are as follows:

Related party	Sales to related party £'000	Amounts owed to related party £'000	Amounts owed by related party £'000
Ascent Flight Training (Management) Limited			
At 31 March 2024	4,399	-	1,366
At 31 March 2023	758	-	267
Advanced Jet Training Limited			
At 31 March 2024	2,623	-	234
At 31 March 2023	1,253	-	257
Airtanker Services Limited			
At 31 March 2024	15,540	(177)	-
At 31 March 2023	13,680	-	83
Rear Crew Training Limited			
At 31 March 2024	881	-	-
At 31 March 2023	639	-	-
Rotary Wing Training Limited			
At 31 March 2024	4,219	(4)	-
At 31 March 2023	4,006	-	-

21 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

The Company contributes into the Babcock Group wide defined contribution scheme. The total cost of pension contributions for employees of the Company during the year was £4,598k (2023: £4,945k). On 31 March 2024, no contributions were payable to the funds (2023: £nil).

22 Contingent liabilities

The Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with overdrawn balances of £8.3m at 31 March 2024 (31 March 2023: £21.0m).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

23 Post balance sheet events

There have been no significant events affecting the Company since the year end.

24 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

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