Babcock Critical Services Limited

Annual report and financial statements

For the year ended 31 March 2024

Company registration number:

SC046710

COMPANY INFORMATION

Directors
A M Phillips
C J L Spicer
K A Robinson
M T Abbott

Company secretary
Babcock Corporate Secretaries Limited

Registered number
SC046710

Registered office
103 Waterloo Street
Glasgow
G2 7BW

Independent auditors
Deloitte LLP
1 New Street Square
London
EC4A 3HQ

Contents

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 provides support services operations in the Emergency Services sector. The services relate to the provision of maintenance and fleet management support services, for customer fleets with a view to optimising asset availability.

Review of the business

	2024	2023 *Restated
	£000	£000
Revenue	**52,136**	63,683
Operating profit	**11,872**	19,970
Net assets	**9,522**	4,850

There was a decrease in revenue in the year ending March 2024 which is primarily due to the completion during the year of a contract with the Metropolitan Police Service, and a decrease in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme. The Operating profit in the year ending 31 March 2024 was impacted by a profit on disposal of a property of £18.2m (2023: £nil) and an impairment charge relating to investments in subsidiary undertakings of (£11.2m) (2023: gain of £19.4m), giving a net benefit relating to these two items in the year of £8.0m (2023: £19.4m). The reduced benefit in the year ending 31 March 2024 is the main cause of the reduction in Operating Profit from £20.0m in the year ending 31 March 2023 to £11.8m in the year ending 31 March 2024. A further factor is the transfer of certain non-Operational employees to a group subsidiary with a resultant reduction in administration costs year on year of £3.2m. The net assets have increased by £4.7m largely due to a reduction in amounts owed to parent undertaking relating to a loan repayment.

*In the year ended 31 March 2024, the company restated the prior year financial information. Details of the restatement are contained in note 25.

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 management of the business and the execution of the company's strategy are subject to various risks and uncertainties. These are managed through the operational review process, supplemented at group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

The key risks and uncertainties affecting the company are considered to be related to changes in government policy, budget allocations and the changing political and regulatory environment.

The directors manage this risk by meeting on a regular basis with government funding bodies and by repositioning the business as required to meet their requirements and those of employers. 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 company's activities are managed on a divisional basis. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the company, is discussed on page 52 to 55 of the annual report of Babcock International Group PLC, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability.

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

Key performance indicators *(continued)*

Response means how quickly the company meets the needs of customers and their assets when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

In the last year the company has continued to maintain the high levels of service KPIs to its existing and new customers and deliver a consistently high service to the customer throughout the year. The company's key customers continue to be satisfied with the level of performance.

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 company business and strategy.

	2024	2023
Revenue Growth	-18.1%	10.4%
Operating Return on Revenue	22.8%	31.4%
Order Book	£165.7m	£203.3m
Total injuries per 100,000 hours worked	1.8	1.4

Revenue Growth
Revenue growth was -18.1% in the year ending March 2024. This decrease was primarily due to the completion during the year of a contract with the Metropolitan Police Service, and also due to a decrease in procurement activity on an Emergency Services contract where the value of this activity can fluctuate annually based on the type of vehicles and quantities being purchased which are driven by the customer's lifecycle replacement programme.

Operating Return on Revenue
Operating return on revenue has decreased to 22.8%. This measure is being impacted by a reduced credit to operating profit when compared to the prior year when considering Fixed Assets and Investments, as in the year ending 31 March 2024 Operating Profit was impacted by a gain on disposal of fixed assets of £18.2m and also an impairment investment in subsidiary undertakings in the year of £11.2m, whereas in the prior year operating profit was impacted by a reversal of impairment to investments in subsidiary undertakings of £19.4m.

Order Book
The company has a number of long-term contracts which provide a significant order book giving strong visibility of revenue for a number of years, however the order book value has reduced year on year largely due to the completion of the Metropolitan Police Service contract.

Total Injuries
Ensuring employees and subcontractors who visit our sites are kept safe at work is a primary objective for the company, and we seek to create an environment and culture together with safe working practices that ensures the risk of injuries being sustained is minimised.

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.

The company manages stakeholder engagement 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.

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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. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

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 public and private customers across the globe, 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.

What matters to them:

- Safety
- Operational excellence
- Value for money

Suppliers

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 16-17 and 86-87 of the annual report of Babcock International Group PLC.

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

Regulators
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

Employees
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
- Health, safety and wellbeing
- Inclusion and diversity

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.

Business relationships
We 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 public and private customers across the globe, 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.

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.

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

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 is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040.

Further information on climate, including climate related risks and uncertainties in the context of the Group as a whole, and other ESG items is included on pages 58 to 86 of the annual report of Babcock International Group PLC. The information provided in the Babcock International Group PLC annual report does not form part of this report

This report was approved by the board on 10 December 2024 and signed on its behalf by:

A Phillips

A M Phillips

Director

10 December 2024

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

An interim dividend of £nil was paid in the year (2023: £nil). No final dividend for the year ended 31 March 2024 has been proposed by the directors (2023: £nil).

Directors

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

J R Parker (resigned 22 May 2023)
C J L Spicer
A M Phillips (appointed 22 May 2023)
K A Robinson (appointed 26 March 2024)
L C Atkinson (appointed 12 July 2023, resigned 26 March 2024)
M T Abbott (appointed 29 November 2024)

The Board is not aware of any contract of significant in relation to the company in which any director has, or has had, a material interest.

Future developments

In September 2023 the company was notified that an existing customer to which it provides resilience services had exercised a 4 year option and so the company will continue to provide services under that contract until the second half of 2028.

Going concern

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

As the company is part of the larger Babcock International group, it participates in centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The company is in a net current liabilities position of £14.6m but is not expected to settle the intercompany amounts due to parent and group undertakings (£36.3m) until the company has sufficient liquidity to do so and the company has received confirmation from the respective other 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 over the next 12 months. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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 with 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 6 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.

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 which does not form part of this report.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic report on page 5.

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 10 December 2024 and signed on its behalf by:

A Phillips

A M Phillips
Director

10 December 2024

Statement of Directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' 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 these 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 the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the directors of Babcock Critical Services Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Babcock Critical Services 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 comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 26.

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.

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.

Independent auditors' report to the members of Babcock Critical Services Limited

Other Information (continued)

We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, 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.

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 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 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 it are described below:

Independent auditors' report to the members of Babcock Critical Services Limited

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued**)**

The accuracy of revenue and margin recognition on key long-term contracts with significant management judgement.

- 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;
- Identifying key contracts as part of our risk assessment procedures based upon both quantitative and qualitative factors;
- 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 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 their reported position.

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.

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.

Independent auditors’ report to the members of Babcock Critical Services Limited

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.

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

Income Statement for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Revenue	4	**52,136**	63,683
Cost of sales		**(46,410)**	(59,092)
Gross profit		**5,726**	4,591
Administrative expenses		**(839)**	(4,014)
Gain on disposal of fixed asset	5	**18,170**	-
Impairment to investments	5	**(11,185)**	19,393
Operating profit	5	**11,872**	19,970
Finance income	6	**24**	50
Finance expenses	6	**(1,111)**	(238)
Other finance income – pensions	23	**24**	421
Profit before taxation		**10,809**	20,203
Income tax (charge)/credit	9	**(480)**	103
Profit for the financial year		**10,329**	20,306

All of the above results derive from continuing operations.

Statement of Comprehensive Income for the year ended 31 March 2024

	Note	2024 £000	2023 £000
Profit for the financial year		**10,329**	20,306
Other comprehensive (loss)/income:			
Items that will not be subsequently reclassified to income statement:			
Loss on re-measurement of net defined benefit obligation	23	**(7,543)**	(13,169)
Tax on defined benefit obligation	9	**1,886**	3,242
Total other comprehensive (loss)/income		**(5,657)**	(9,927)
Total comprehensive income		**4,672**	10,379

Statement of Financial Position for the year ended 31 March 2024

	Note	2024 £000	2023 *Restated £000
Fixed assets			
Intangible assets	10	**-**	-
Property, plant and equipment	11	**2,037**	4,553
Right-of-use assets	12	**464**	2,153
Investments	13	**24,621**	35,806
Trade and other receivables	15	**-**	55,932
Pension asset	23	**594**	6,001
		27,716	104,445
Current assets			
Inventories	14	**1,064**	1,685
Trade and other receivables	15	**29,860**	12,866
Cash and cash equivalents		**88**	-
		31,012	14,551
Creditors: amounts falling due within one year			
Trade and other payables	16	**(45,142)**	(107,164)
Lease liabilities	17	**(249)**	(949)
Provision for liabilities	18	**(245)**	-
Bank overdraft		**-**	(8)
Net current liabilities		**(14,624)**	(93,570)
Total assets less current liabilities		**13,092**	10,875
Creditors: Amounts falling due after more than one year			
Lease liabilities	17	**(178)**	(2,604)
Deferred tax	9	**(64)**	(1,470)
Provisions for liabilities	18	**(3,328)**	(1,951)
Net assets		**9,522**	4,850
Equity			
Called up share capital	19	**19,908**	19,908
8Accumulated losses		**(10,386)**	(15,058)
Total shareholders' funds		**9,522**	4,850

*In the year ended 31 March 2024, the company restated the prior year financial information. Details of the restatement are contained in note 25.

The notes on pages 19 to 50 are an integral part of these financial statements.

The financial statements on pages 16 to 50 were approved and authorised for issue by the Board of Directors on 10 December 2024 and signed on its behalf by:

A Phillips

A M Phillips
Director
10 December 2024

Statement of Changes in Equity for the year ended 31 March 2024

	Called-up share capital	Accumulated Losses £000	Total Shareholders' Funds
	£000		£000
Balance at 1 April 2022 (previously stated)	**19,908**	**(24,232)**	**(4,324)**
Prior year adjustment	-	(1,205)	(1,205)
Balance at 1 April 2022 (restated)*	19,908	(25,437)	(5,529)
Loss for the financial year	-	20,306	20,306
Other comprehensive gain	-	(9,927)	(9,927)
Total comprehensive gain for the year	**-**	**10,379**	**10,379**
Balance at 31 March 2023	**19,908**	**(15,058)**	**4,850**
Profit for the financial year	**-**	**10,329**	**10,329**
Other comprehensive loss	**-**	**(5,657)**	**(5,657)**
Total comprehensive gain for the year	**-**	**4,672**	**4,672**
Balance at 31 March 2024	**19,908**	**(10,386)**	**9,522**

*In the year ended 31 March 2024, the company restated the prior year financial information. Details of the restatement are contained in note 25.

1 General information

Babcock Critical Services Limited is a private company limited by shares, which is incorporated and domiciled in Scotland, UK. The address of the registered office is 103 Waterloo Street, Glasgow, G2 7BW.

Its ultimate controlling party is disclosed in note 27. 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 company is a wholly owned subsidiary of Babcock Critical Assets Holdings LLP and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

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) IFRS 7, ‘Financial instruments: Disclosures’
b) 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)
c) Paragraph 38 of IAS 1, ‘Presentation of financial statements’ comparative information in respect of:
d) paragraph 79(a) (iv) of IAS 1 ‘Share capital and reserves’;
e) paragraph 73(e) of IAS 16 ‘Property, plant and equipment’; and
f) paragraph 118(e) of IAS 38 ‘Intangible assets’ (reconciliations between the carrying amount at the beginning and end of the period)
g) IAS 7, ‘Statement of cash flows’
h) 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.
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
l) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, ‘impairment of asset

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

m) 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.

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.

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

2 Summary of material accounting policies *(continued)*

Going concern

The company's business activities, together with the factors likely to affect it 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 the larger Babcock International group, it participates in centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The company is in a net current liabilities position of £14.6m but is not expected to settle the intercompany amounts due to parent and group undertakings (£36.3m) until the company has sufficient liquidity to do so and the company has received confirmation from the respective other 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 over the next 12 months. 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.

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(b) Determination of contract price *(continued)*

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. 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. 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.

As part of this judgement, variable consideration may be constrained. The company recognises variable consideration only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised when the uncertainty associated with the variable consideration is subsequently resolved.

(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 and engineering), 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.

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Revenue recognised over time *(continued)*

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 value of the goods or services rendered by the company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. 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.

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.

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(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.

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.

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).

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

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

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.

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. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

(g) Costs to fulfil a contract

Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. 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.

Capitalised contract costs are amortised to cost of revenue on a straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates.

(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.

2 Summary of material accounting policies *(continued)*

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.

Employee benefits

a) Pension obligations
The company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method.

The total service cost and associated administration costs of the pension scheme are charged to operating profit. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income so that the company's statement of financial position reflects the IAS 19 measurement of the schemes' surpluses or deficits at the statement of financial position date.

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using appropriate valuation techniques.

The extent to which the company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

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) 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.

2 Summary of material accounting policies *(continued)*

Taxation (continued)

(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.

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 and impairment. The intangible assets are amortised on a straight-line basis as follows:

a) Computer software
Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and eight years.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less 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 balance sheet date) at the following annual rates:

Freehold land	Not depreciated
Freehold buildings	2% to 8%
Assets under construction	Not depreciated
Leasehold improvements	Depreciation over duration of lease
Plant and equipment	6.6% to 33.3%

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying 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.

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'.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

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 cash generating unit (CGU) 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.

2 Summary of material accounting policies *(continued)*

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined on a first-in first-out method. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

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.

2 Summary of material accounting policies *(continued)*

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined based on estimated results on completion of contracts and are updated regularly.

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 18 for details of contingent liabilities.

Financial instruments

a) Financial assets and liabilities at amortised cost

Cash and cash equivalents, trade receivables, amounts due from related parties and other debtors 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 debtors, 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 creditors, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

2 Summary of material accounting policies *(continued)*

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 derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. 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.

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.

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty:

Revenue recognition – estimates of outturn revenues and costs

Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Both of these estimates can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the company will meet performance targets, earn incentives and the pricing of any scope changes, variations or claims under the contract. When considering variations to contracts, the company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract or be considered, and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing and the contractual terms. Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational and other risks. When considering variations, claims and contingencies, the company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. The assessment of all significant contracts are subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Defined benefit pension schemes obligations

The company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 23.

Impairment of investments in subsidiaries

The company conducts impairment reviews of investments in subsidiaries whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or tests for impairment annually in accordance with the relevant accounting standards. Determining whether an asset is impaired requires an estimation of the recoverable amount, which requires the company to estimate the value in use which is based on future cash flows and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, an impairment loss may arise. See note 13 for the disclosures of the carrying value of investments.

Critical accounting judgements in relation to these financial statements:

Revenue recognition – identification of performance obligations

Revenue recognition is initially dependant on identifying the number of specific performance obligations that exist within a contract. Judgement has been exercised in determining whether certain contracts that provide Repair and Maintenance services, as well as associated services to ensure the Customer has Asset Availability, should be treated as separately identifiable promises where each is accounted for as a separate performance obligation; or whether promises are not separately identifiable but rather part of an integrated service whereby this bundle of services represents a single performance obligation. With reference to both the commercial nature and the practical delivery of the contracts certain contracts have been assessed as having a single performance obligation. In such cases, the way in which the contract is structured and operates is such that these services are not provided individually, and additionally the customer has sought one single provider to integrate all of these aspects into the fully managed service that the company provides.

3 Critical accounting estimates and judgements *(continued)*

Revenue recognition – timing of recognition

The timing of revenue recognition is dependent on whether the company transfers control of the good or service over time or at a point in time. Revenue is recognised over time if one of the following criteria is met; the customer simultaneously receives and consumes the benefits provided; the company's performance creates or enhances an asset the customer controls; 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.

Determination of whether revenue should be recognised over time or at a point in time can involve a degree of judgement and for certain performance obligations the company has concluded it is appropriate for revenue to be recognised at a point in time and for others it is appropriate for revenue to be recognised over time.

In addition, where contracts are assessed to contain variable revenue, consideration has been given as to whether this variable revenue should be recognised into a distinct time period or recognised over multiple time periods when applying the series guidance of IFRS 15. This determination involves a degree of judgement over whether the terms of a variable payment relate specifically to the entity's efforts to transfer a distinct good or service within a series. When it is determined that it relates to the transfer of good or service within a series, variable consideration will be allocated to the specific time period it relates to. Typically, where variable revenue relates to a specific event that occurs in a discrete time period (eg key performance indicator deductions), the revenue (or deductions to revenue) is recognised in that specific time period.

4 Revenue

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

	2024	2023
	£000	£000
By area of activity:		
Rendering of services over time	**48,535**	56,782
Rendering of services at a point in time	**3,601**	6,901
	52,136	63,683

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

5 Operating profit

Operating profit is stated after (crediting)/charging:

	2024	2023
	£000	£000
Profit on disposal of property, plant and equipment	**(18,170)**	-
Depreciation of property, plant and equipment (note 11)	**813**	1,710
Right-of-use asset depreciation (note 12)	**707**	1,146
Amortisation of intangible assets (note 10)	**-**	171
Inventory charged to income statement	**1,924**	1,154
Impairment charge /(reversal of impairment) (note 13)	**11,185**	(19,393)

The profit on disposal of property, plant and equipment relates to the disposal of Land and Buildings on a site that was no longer required following the completion of a contract.

5 Operating profit *(continued)*

The auditors' remuneration for the current (£74,000) and prior year (£74,000) has been borne by a fellow Group company. 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.

6 Finance income and expenses

	2024 £000	2023 £000
Finance income:		
Interest income on financial asset	**-**	47
Foreign exchange	**-**	3
Bank interest	**24**	-
	24	50

	2024 £000	2023 £000
Finance expenses:		
Bank interest	**-**	(57)
Intercompany cash sweep interest	**(1,011)**	-
Lease interest	**(99)**	(181)
Foreign exchange	**(1)**	-
	(1,111)	(238)

7 Staff costs

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

	2024 Number	2023 Number
By activity:		
Operations	**281**	389
Management and administration	**13**	33
	294	422

Their aggregate remuneration comprised:

	2024 £000	2023 £000
Wages and salaries	**12,973**	17,877
Social security costs	**1,448**	2,020
Other pension costs	**1,377**	2,053
	15,798	21,950

Included in other pension costs are £156,000 (2023: £393,000) in respect of the defined benefit schemes and £1,221,000 (2023: £1,660,000) in respect of the defined contribution scheme.

Notes to the financial statements

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by the company were as follows:

	2024	2023
The remuneration of the directors which was paid by the company was as follows:	**£000**	£000
Emoluments (including benefits in-kind)	**-**	174
Defined contribution pension scheme	**-**	11
	-	185

During the year none of the directors were paid by the company, (2023: three of the directors were paid by the company.)

The above amounts for remuneration include the following in respect of the highest paid director:

	2024	2023
	£000	£000
Emoluments (excluding pension contributions)	**-**	67
Defined contribution pension scheme	**-**	4

Where directors received remuneration that was borne by other Babcock group companies it is not possible to make an accurate apportion of these directors' emoluments relating to services provided to the company.

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.

9 Tax

Income tax charge/(credit) included in income statement

	2024 £000	2023 £000
Deferred tax:		
Origination and reversal of timing differences	**480**	(40)
Impact of change in UK tax rate	**-**	(63)
Total deferred tax charge/(credit)	**480**	(103)
Total tax charge/(credit) for the year	**480**	(103)

Tax (credit) included in other comprehensive income

	2024 £000	2023 £000
Deferred tax:		
- Tax impact of actuarial gains/losses on pension liability	**(1,886)**	(2,502)
- Impact of change in UK tax rates	**-**	(740)
Tax (credit) included in other comprehensive income	**(1,886)**	(3,242)

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

	2024 £000	2023 £000
Profit before taxation	**10,809**	20,203
Profit multiplied by standard UK corporation tax rate of 25% (2023: 19%)	**2,702**	3,839
Effects of:		
Expenses not deductible for tax/income not chargeable to tax	**2,009**	(3,635)
Group relief for nil consideration	**(4,231)**	(244)
Impact of change in UK tax rate	**-**	(63)
Total tax charge/(credit) for the year	**480**	(103)

9 Tax *(continued)*

Deferred taxation

The major components of the deferred tax liabilities are recorded as follows:

Deferred tax liabilities	Pension asset £000	Accelerated capital allowances £000	Other £000	Total £000
At 1 April 2023:	**1,500**	**(28)**	**(2)**	**1,470**
- Charged to the income statement	534	(54)	-	480
- (Credited) to other comprehensive income	(1,886)	-	-	(1,886)
At 31 March 2024:	**148**	**(82)**	**(2)**	**64**
At 1 April 2022:	**4,583**	**234**	**(2)**	**4,815**
- Charged to the income statement	159	(262)	-	(103)
- (Credited) to other comprehensive income	(3,242)	-	-	(3,242)
At 31 March 2023:	**1,500**	**(28)**	**(2)**	**1,470**

10 Intangible assets

	Computer Software £000	Total £000
Cost		
At 1 April 2023	1,222	1,222
Disposals	(857)	(857)
At 31 March 2024	**365**	**365**
Accumulated amortisation		
At 1 April 2023	(1,222)	(1,222)
Disposals	857	857
At 31 March 2024	**(365)**	**(365)**
Net book value		
At 31 March 2024	**-**	**-**
At 31 March 2023	-	-

11 Tangible fixed assets

	Land	Buildings & Leasehold Improvements	Plant and equipment	Total
	£000	£000	£000	£000
Cost				
At 1 April 2023	1,223	5,485	3,965	10,673
Additions	-	-	214	214
Disposals	(1,223)	(2,686)	(2,720)	(6,629)
At 31 March 2024	**-**	**2,799**	**1,459**	**4,258**
Accumulated depreciation				
At 1 April 2023	-	(2,994)	(3,125)	(6,119)
Charge for the year	-	(223)	(590)	(813)
Disposals	-	1,991	2,720	4,711
At 31 March 2024	**-**	**(1,226)**	**(995)**	**(2,221)**
Net book value				
At 31 March 2024	**-**	**1,573**	**464**	**2,037**
At 31 March 2023	1,223	2,490	840	4,553

Contractual commitments for property, plant and equipment at year end is £nil (2023: £nil).

12 Right-of-use assets

	Property £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2023	6,470	555	7,025
Additions	132	156	288
Disposals	(5,549)	(75)	(5,624)
At 31 March 2024	**1,053**	**636**	**1,689**
Accumulated depreciation			
At 1 April 2023	(4,521)	(351)	(4,872)
Charge for the year	(567)	(140)	(707)
Disposals	4,279	75	4,354
At 31 March 2024	**(809)**	**(416)**	**(1,225)**
Net book value			
At 31 March 2024	**244**	**220**	**464**
At 31 March 2023	1,949	204	2,153

13 Investments

	2024 Shares in group undertakings £000	2023 Shares in group undertakings £000
Cost		
At 1 April	66,353	66,353
At 31 March	**66,353**	**66,353**
Impairment		
At 1 April	(30,547)	(49,940)
(Charge) / reversal in the year	(11,185)	19,393
At 31 March	**(41,732)**	**(30,547)**
Net Book Value		
At 1 April	35,806	16,413
At 31 March	**24,621**	**35,806**

Results of the current year impairment assessment:
The impairment test for the year ended 31 March 2024 resulted an impairment charge relating to Babcock Vehicle Engineering Limited of £11,185,000.

The directors believe that the carrying value of the investments is supported by their underlying net assets.

Details of the investments are outlined in note 24.

Key assumptions

The key assumptions to which the recoverable amount of the company's investment in subsidiary undertakings is most sensitive are future cash flows, long-term growth rates and discount rates. Further details on how these inputs are determined are set out in note 10 of the Group financial statements for the year ending 31 March 2024.

The pre-tax discount rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 12.2% (2023: 13.1%). The long-term growth rates used to determine the recoverable amount of the company's investment in subsidiary undertakings are 2.2% (2023: 2.1%).

Sensitivity

The directors carried out sensitivity analysis on the reasonably possible changes in key assumptions used to determine the recoverable value of the company's investment in subsidiary undertakings.

The company's calculation of recoverable value presents an impairment charge of £11,185,000 in the year ending 31 March 2024. Accordingly, reasonably possible changes in estimates could give rise to a material impairment in the following year. The company carried out sensitivity analysis on the reasonably possible changes in the discount rate and long-term growth rate used in the value-in-use models for the company's investment in subsidiary undertakings.

13 Investments *(continued)*

***Sensitivity** (continued)*

An increase to the pre-tax discount rate of 100 basis points would cause a increase to the impairment reversal of £3.2m. A decrease to the long-term growth rate of 50 basis points would cause a increase to the impairment reversal of £1.2m.

The directors consider that key cash flow assumptions in the calculation of the recoverable value of the company's investment in subsidiary undertakings include short-term cash flows. If the year-on-year growth is decreased by 15%, the value in use for the company's investment in subsidiary undertakings increases by £2.6m.

14 Inventories

	2024 **£000**	2023 £000
Finished goods and goods for resale	**1,064**	1,685
	1,064	1,685

Inventories are stated after provision for impairment of £202,000 (2023: £259,099).

15 Trade and other receivables

	2024 **£000**	2023 £000
Amounts falling due within one year:		
Trade receivables	**2,454**	4,049
Contract assets	**6,249**	5,990
Amounts owed by group undertakings	**20,986**	198
Other receivables and prepayments	**171**	2,629
	29,860	12,866

	2024 **£000**	2023 *Restated £000
Amounts falling due after one year:		
Amounts owed by group undertakings	**-**	55,932
	-	55,932

Amounts owed by group undertakings are unsecured and repayable on demand and interest free.

*In the year ended 31 March 2024, the company restated the prior year financial information. Details of the restatement are contained in note 25.

15 Trade and other receivables *(continued)*

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

- No loans (2023: £55,932,000 two loans) are repayable on demand, with no interest charge.
- Dividend debtors £1,205k (2023: £1,205k) less provision for expected credit loss £1,205k (2023 restated: £1,205k).
- Debtors totalling £48,000 (2023: £153,000)

	Contract asset £000
At 31 March 2023	5,990
Transfers from contract assets recognised at the beginning of the year to receivables	(5,990)
Increase due to work done not invoiced	6,249
At 31 March 2024	**6,249**

During the year, the company has recognised £5,990,000 of revenue in respect of performance obligations satisfied or partially satisfied in previous periods.

16 Trade and other payables

	2024 £000	2023 £000
Amounts falling due within one year:		
Trade payables	**1,027**	2,651
Amounts owed to parent and group undertakings	**37,998**	97,616
Other taxation and social security	**432**	1,463
Accruals	**2,255**	2,415
Contract liabilities	**3,430**	3,019
	45,142	107,164

16 Trade and other payables *(continued)*

Amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand.

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 loan totalling £33,441,000 (Three loans 2023: £92,723,000) is repayable on demand and is interest bearing.
- Creditors totalling £4,557,000 (2023: £4,893,000)

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 21).

	Contract liabilities £000
At 31 March 2023	3,019
Revenue recognised that was included in contract liabilities at the beginning of the year	(3,019)
Increase due to cash advanced, excluding amounts recognised as revenue	3,502
At 31 March 2024	**3,502**

17 Lease liabilities

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

	2024 £000	2023 £000
Opening value of liability	**3,553**	4,385
Additions	**288**	165
Disposals	**(2,598)**	(45)
Interest charged	**99**	181
Payments	**(915)**	(1,133)
Closing value of liability	**427**	3,553

The entity leases various premises under non-cancellable lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable leases. Discounted future minimum lease payments are as follows:

	2024 £000	2023 £000
Within one year	**249**	949
In more than one year, but not more than five years	**178**	2,604
After five years	**-**	-
Carrying value of liability	**427**	3,553

17 Lease liabilities *(continued)*

The following are the amounts recognised in profit or loss:

	2024	2023
	£000	£000
Expense relating to short-term leases	**14**	31
Expense relating to leases of low-value assets	**56**	89
	70	120

18 Provisions for liabilities

	Dilapidations provision £000	**Employee related provision £000**	**Contract/ warranty provision £000**	**Total £000**
At 1 April 2023	**1,841**	**72**	**38**	**1,951**
Charged to the income statement	1,758	-	**-**	1,758
Released to the income statement	(26)	(72)	(38)	(136)
At 31 March 2024	**3,573**	**-**	**-**	**3,573**

Dilapidation provisions
Dilapidation provisions relate to the cost of dilapidations to leasehold properties. These provisions are expected to be utilised in the next 3 years.

19 Called up Share capital

	2024	2023
	£000	£000
Allotted and fully paid		
19,908,300 ordinary shares of £1 each (2022: 19,908,300)	**19,908**	19,908

20 Dividends

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

21 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).

22 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.

23 Pension commitments

The company accounts for pension costs in accordance with IAS 19. The company contributes to a defined contribution scheme in the UK in respect of a number of its employees, at a cost of £1,221,000 (2023: £1,660,000). The company is also a contributing employer to a defined benefit scheme (the “Babcock International Group Pension Scheme”).

The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the defined benefit scheme is that the employees contribute to the schemes with the employer paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the Group with the trustees of each scheme who are advised by independent, qualified actuaries.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses, through a common investment committee we have significantly hedged the interest rate and inflation risk though derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The defined benefit schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of each scheme are required by law to act in the best interests of each scheme’s members. In addition to determining future contribution requirements (with the agreement of the Group), the trustees are responsible for setting the schemes’ investment strategy (subject to consultation with the Group). All the schemes have at least one independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

23 Pension commitments *(continued)*

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2024 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2023. The major assumptions used for the IAS 19 valuation were:

	2024 %	2023 %
Major assumptions		
Rate of increase in pensionable salaries	2.9%	3.00%
Rate of increase in pensions	3.10%	3.20%
Discount rate	4.80%	4.80%
Inflation rate (RPI)	3.20%	3.30%
Inflation rate (CPI)	2.70%	2.80%
Weighted average duration of cash flows (years)	11	12
Total life expectancy for current pensioners aged 65 (years) - female	86.1	86.3
Total life expectancy for future pensioners currently aged 45 (years) - male	88.7	86.9
Total life expectancy for future pensioners currently aged 45 (years) - female	87.1	86.8
Total life expectancy for current pensioners aged 65 (years) - female	89.9	89.4

The Company’s cash contribution rates payable to the schemes are expected to be as follows:

	BIGPS
	£000
Future service contribution rate	30.3%
Future service cash contributions	3,000
Deficit contributions	-
Additional longevity swap payments	-
Expected employer cash costs for 2024/25	3,000
Expected salary sacrifice contributions	400
Expected total employer contributions	3,400

23 Pension commitments *(continued)*

The changes to the Babcock International Group PLC balance sheet at March 2024 and the changes to the Babcock International Group PLC income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2024 £ million	**Income statement 2025 £ million**
Initial assumptions	919.7	1,068.0
Discount rate assumptions increased by 0.5%	871.7	(2,198.0)
Discount rate assumptions decreased by 0.5%	972.5	4,097.0
Inflation rate assumptions increased by 0.5%	947.9	2,655.0
Inflation rate assumptions decreased by 0.5%	892.4	(451.0)
Total life expectancy increased by half a year	938.8	2,020.0
Total life expectancy decreased by half a year	901.9	185.0
Salary increase assumptions increased by 0.5%	921.9	1,284.0
Salary increase assumptions decreased by 0.5%	917.5	863.0

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2024 were:

Fair value of plan of assets	**2024 £000**	2023 £000
Growth assets		
Equities	**5,749**	569
Property funds	**94,489**	101,475
High yield bonds/emerging market debt	**6**	5
Absolute return and multi-strategy funds	**-**	-
Low-risk assets		
Bonds	**438,844**	450,971
Matching assets*	**525,026**	525,991
Longevity swaps	**(50,000)**	(51,400)
Fair value of assets	**1,014,114**	1,027,611
Total defined benefit obligations	**(919,661)**	(959,486)
Net (liabilities)/assets recognised in the statement of financial position	**94,453**	68,125

The scheme does not invest directly in assets or share of Babcock International Group PLC.

23 Pension commitments *(continued)*

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

The amounts recognised in the Group income statement are as follows:

	2024 £000	2023 £000
Current service cost	**2,982**	5,172
Incurred expenses	**4,077**	2,499
Past service cost	**-**	-
Curtailment	**-**	-
Total included within operating profit	**7,059**	7,671
Net interest cost/(credit)	**(3,837)**	(4,774)
Total included within income statement	**3,222**	2,897

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group PLC charge, included £19,000 for service cost (2023: £456,000), £26,000 for incurred expenses (2023: £220,000), and net interest cost of £24,000 (2023: £421,000).

Amounts recorded in the Group statement of comprehensive income

	2024 £000	2023 £000
Actual return less interest on pension scheme assets	**63,833**	(114,297)
Experience gains/(losses) arising on scheme liabilities	**(27,514)**	(18,000)
Changes in assumptions on scheme liabilities	**(6,768)**	16,176
	29,551	(116,121)

The actuarial loss recognised in the Statement of Comprehensive Income in these financial statements, based on the Company's allocation of the total Babcock International Group PLC movement, was £7,430,000 (2023: £13,169,000).

23 Pension commitments *(continued)*

Analysis of movement in the Group statement of financial position:

	2024	2023
	£000	£000
Fair value of plan assets		
At 1 April	**1,079,011**	1,523,032
Interest on assets	**51,156**	40,389
Actuarial gain on assets*	**(67,700)**	(429,099)
Employer contributions	**59,101**	12,977
Employee contributions	**62**	71
Benefits paid	**(57,516)**	(68,359)
Settlements	**-**	-
At 31 March	**1,064,114**	1,079,011
Present value of benefit obligations		
At 1 April	**959,486**	1,283,066
Service cost	**2,982**	5,172
Incurred expenses	**4,077**	2,499
Interest cost	**44,852**	33,839
Employee contributions	**62**	71
Experience (gain)/loss	**(6,768)**	18,000
Actuarial loss/(gain) – demographics	**(7,172)**	(8,864)
Actuarial (gain)/loss – financial	**(20,342)**	(305,938)
Benefits paid	**(57,516)**	(68,359)
Past service costs	**-**	-
Curtailment	**-**	-
At 31 March	**919,661**	959,486

The surplus recognised in these financial statements, based on the Company's allocation of the total Babcock International Group PLC assets and liabilities for this scheme, was £594,000 (2023: £6,001,000).

24 Subsidiary, associate and Joint Venture undertakings

All related undertakings for the company are as listed below:

Company Name	**Country**	**Address**	**Interest**	**Direct %**
Babcock Vehicle Engineering Limited	England	33 Wigmore Street, London	246 ordinary shares	100.0%

25 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)	Provision for expected credit losses	31 March 2023 (restated)
	£'000	£'000	£'000
Assets			
Non-current assets			
Trade and other receivables	57,182	(1,205)	55,977
Total non-current assets*	105,695	(1,205)	104,490
Total assets less current liabilities*	12,080	(1,205)	10,875
Net assets*	6,055	(1,205)	4,850
Capital and reserves			
Accumulated retained earnings at 31 March 2022	(24,232)	(1,205)	(25,437)
Accumulated retained earnings at 31 March 2023	(13,853)	(1,205)	(15,058)
Total shareholders' funds*	6,055	(1,205)	4,850

*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.

26 Post Balance Sheet Events

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

27 Immediate and ultimate parent undertaking

The company's immediate parent company is Babcock Critical Assets 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