Babcock Vehicle Engineering Limited

Annual report and financial statements

For the year ended 31 March 2024

Company registration number:

00434529

COMPANY INFORMATION

Current directors
M Abbott
A Phillips
C Spicer

Company secretary
Babcock Corporate Secretaries Limited

Registered office
33 Wigmore Street
London
W1U 1QX

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

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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 specialist vehicle conversion services in the Emergency Services and Defence sectors.

Review of the Business

	2024	2023
	£000	£000
Revenue	**36,281**	18,869
Operating Profit / (Loss)	**1,155**	(3,696)
Net liabilities	**(3,761)**	(4,113)

In the year ending 31 March 2024 the Revenue increased to £36.3m from £18.9m in the previous year. This increase was primarily due to the company being able to produce and sell higher volumes of its armoured Toyota LC300 Civilian Armoured Vehicle to a number of different customers. These higher volumes of Civilian Armoured Vehicle sales also resulted in the Company recording an Operating profit of £1.2m after a loss of £3.7m in the previous year, with the additional volume and gross margin from this activity more than offsetting overheads in the business which was not possible in the previous year when volumes were lower.

The company continues to have Net liabilities which have reduced in the year due to the profit after tax, however the company continues to receive the support from Babcock International Group PLC to ensure the company has sufficient finance to enable it to operate (see also Note 2).

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.

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

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. 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	92.3%	-29.9%
Operating Return on Revenue	3.2%	-19.6%
Order Book	£6.1m	£22.2m
Accident Frequency rate	4.96	3.89

Revenue Growth
Revenue growth in-year was significant, primarily due to the Company being able to produce and sell significantly more of its Toyota LC300 Civilian Armoured Vehicle than in the previous year. This was possible as the Company was able to produce and sell vehicles for a full 12 months, whereas in the prior year the Vehicle was undergoing development and so was only available to be sold in the second half of the financial year.

Operating Return on Revenue
Due to the growth in Revenue, the company was able to record an Operating profit in the year, with the increased Revenue helping to recover the fixed cost base and business overheads.

Order Book
Order book has decreased year on year, this reflects the Company having a reduced orderbook of LC300s at the year end date than the previous year. In the previous year the Company had a higher number of unfulfilled orders that were carried over the year end date.

Accident Frequency Rate
The accident frequency rate has risen slightly year on year to 4.96 from 3.89. The Company continues to put primary importance on health and safety in the workplace and the need to ensure there is a culture that will help to ensure that all employees and contractors return home safe every day.

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.

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 which does not form part of this report.

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

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

This report was approved by the board on 13th December 2024 and signed on its behalf by:

A Phillips

A Phillips

Director

13 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

A total dividend of £nil (2023: £nil) has been paid in the current year and no final dividend for the year ended 31 March 2024 has been provided 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:

M Abbott (appointed 19 November 2024)
S Doherty (resigned 30 September 2024)
C Spicer
A Phillips

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

Information on the future developments of the Company can be found in the Strategic report and form part of this report by cross section.

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 'Report. In addition, within the Directors' Report there are details of the financial risks that the directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £5,605,000 but is not expected to settle the intercompany amounts due to parent and group undertakings (£18,307,000) 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. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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, which does not form part of this report.

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

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 80 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.

Research and development

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

Engagement with suppliers and customers

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

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.

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

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 since the balance sheet date which materially affect the position of the Company.

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 13th December 2024 and signed on its behalf by:

A Phillips

A Phillips
Director
13 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 auditor's report to the members of Babcock Vehicle Engineering Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

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

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

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 23.

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.

Independent auditor's report to the members of Babcock Vehicle Engineering Limited

OTHER INFORMATION

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

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

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

As explained more fully in the 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.

Independent auditor's report to the members of Babcock Vehicle Engineering Limited

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

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

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

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

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

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

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

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- 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 evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence
- 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.

Independent auditor's report to the members of Babcock Vehicle Engineering Limited

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Babcock Vehicle Engineering Limited

USE OF OUR REPORT

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

Signed by:
James Isherwood
19750BCA07604EA...

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

Babcock Vehicle Engineering Limited

Income statement for the year ended 31 March 2024

	Note(s)	2024 £000	2023 £000
Revenue	4	**36,281**	18,869
Cost of sales		**(35,215)**	(21,379)
Gross profit/(loss)		**1,066**	(2,510)
Administrative expenses		**89**	(1,186)
Operating profit/(loss)	5	**1,155**	(3,696)
Finance expenses	6	**(806)**	(100)
Profit/(loss) before income tax		**349**	(3,796)
Income tax credit/(expense)	9	**3**	(31)
Profit/(loss) for the financial year		**352**	(3,827)

All of the above results derive from continuing operations.

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

Babcock Vehicle Engineering Limited

Statement of financial position for the year ended 31 March 2024

	Note	**2024 £000**	2023 £000
Fixed assets			
Intangible assets	10	**216**	264
Tangible assets	11	**2,187**	2,271
Right of use assets	12	**118**	85
		2,521	2,620
Current assets			
Inventories	13	**5,389**	5,653
Trade and other receivables	14	**16,011**	16,077
Cash and cash equivalents		**105**	127
		21,505	21,419
Creditors: amounts falling due within one year			
Trade and other payables	15	**(27,051)**	(28,055)
Lease liabilities	16	**(59)**	(33)
Net current liabilities		**(5,605)**	(6,231)
Total assets less current liabilities		**(3,084)**	(3,611)
Creditors: amounts falling due after more than one year			
Lease liabilities	16	**(62)**	(55)
Provision for liabilities	17	**(615)**	(447)
Net liabilities		**(3,761)**	(4,113)
Capital and reserves			
Called up share capital	18	**-**	-
Retained earnings		**(3,761)**	(4,113)
Total shareholders' deficit		**(3,761)**	(4,113)

The notes on pages 20 to 41 are an integral part of these financial statements.

The financial statements on pages 17 to 41 were approved and authorised for issue by the Board of Directors on 13th December 2024 and signed on its behalf by:

A Phillips

A Phillips
Director
13 December 2024

Statement of changes in equity for the year ended 31 March 2024

	Note	Called up share capital £000	Retained Earnings £000	Total Shareholders' Deficit £000
Balance at 1 April 2022		**-**	**(286)**	**(286)**
Loss and Total Comprehensive Expense		**-**	**(3,827)**	**(3,827)**
Balance at 31 March 2023		**-**	**(4,113)**	**(4,113)**
Profit and Total Comprehensive Income		**-**	**352**	**352**
Balance at 31 March 2024		**-**	**(3,761)**	**(3,761)**

Notes to the financial statements

1 General information

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

Its ultimate controlling party is disclosed in note 23. 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, unless otherwise stated.

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 Services Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

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 Assets'

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

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

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

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 Strategic Report. In addition, within the Directors' Report there are details of the financial risks that the directors have highlighted as significant to the business.

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £5,605,000 but is not expected to settle the intercompany amounts due to parent and group undertakings (£18,307,000) until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the directors have considered the ability of Babcock International PLC to provide such finance.

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

Revenue

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

(a) Performance obligations

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

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted.

The integrated output nature of many of the services provided by the Company results in some contracts only having one performance obligation.

(b) Determination of contract price

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

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

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, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company’s performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company’s performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin. Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company’s contracts, this is deemed to be the most appropriate method to measure Babcock’s effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

Revenue recognised over time *(continued)*

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.

(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.

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(e) Contract modifications *(continued)*

Accounting for contract modifications

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

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

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

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

Claims and variations which are not deemed to be contract modifications

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

(f) Costs of obtaining a contract

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.

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*

Revenue *(continued)*

(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.

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.

2 Summary of material accounting policies *(continued)*

Employee benefits

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

Taxation

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

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

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

(b) Deferred income tax

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

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

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

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.

2 Summary of material accounting policies *(continued)*

Intangible assets

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

a) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit but not exceeding seven years.

Property, plant and equipment

Property, plant and equipment (PPE) 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 PPE over the estimated useful lives to their estimated residual value (reassessed at each statement of financial position date) at the following annual rates:

Land	Not depreciated
Freehold property	2% to 8% straight line
Leasehold property	Lease term
Plant and equipment	6.6% to 33.3% straight line

PPE 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.

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.

2 Summary of material accounting policies *(continued)*

Leases *(continued)*

(a) The Company as lessee *(continued)*

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

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

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

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

Impairment of non-current assets

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

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads. Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

Cash and cash equivalents

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

Trade and other receivables

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

2 Summary of material accounting policies *(continued)*

Trade and other receivables (continued)

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. Intercompany 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. Intercompany loans payable at the balance sheet date that are settled within twelve months are recorded as current liabilities.

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.

2 Summary of material accounting policies *(continued)*

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.

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.

Key sources of estimation uncertainty and critical accounting judgements in relation to these financial statements are considered below.

Revenue recognition - identification of performance obligations (Judgement)

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 contracts involving the purchase and subsequent conversion of base vehicles should be treated as one (the overall combined purchase and conversion) or two (the purchase of the base vehicle and subsequent conversion of the base vehicle) performance obligations. With reference to both the commercial nature and the practical delivery of the contracts certain contracts have been assessed to contain two performance obligations whereas others have been assessed to have one. For contracts assessed as having one performance obligation, the modification to the vehicles is significant with the vehicle substantially transformed, and the context of the contract is that the customer contracts to buy a fully converted vehicle as opposed to buying a base vehicle and a separate conversion.

Revenue recognition - agent or principal (Judgement)

A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations prior to transfer to customers.

Factors that influence this judgement include the level of responsibility the company has under the contract for the provision of the goods or services, the extent to which the company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the company then comes to a judgement as to whether it acts as principal or agent on a performance obligation basis. Any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and operating costs.

Specific consideration has been given to the following contracts which has involved a degree of judgement:

- Contracts where two separate performance obligations have been recognised for the purchase of base vehicles and the subsequent conversion. In this case the Company has been assessed to be acting as an agent in the purchase of the base vehicles on behalf of the customers (with the associated revenue and costs treated net) and principal for the conversion performance obligation.

Contracts where the purchase and subsequent conversion has been assessed to be a single performance obligation. In this case the Company has been assessed to be acting as principal (with the associated revenue and costs treated gross).

3 Critical accounting estimates and judgements *(continued)*

Revenue recognition – timing of recognition (Judgement)

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 contracts 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.

Revenue recognition – estimates of outturn revenues and costs (Estimate)

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.

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:		
Conversion work (principal, over time)	**36,281**	18,869
	36,281	18,869

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

5 Operating profit / (loss)

Operating profit/ (loss) is stated after charging /(crediting):

	2024 **£000**	2023 £000
Depreciation of intangible fixed assets	**48**	44
Depreciation of tangible fixed assets	**172**	103
Depreciation of right of use assets	**88**	23
Inventory charged as an expense	**22,377**	19,103
Impairment of inventory	**41**	327

The auditors' remuneration for the current (£87,000) and prior year (£87,000) 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 expenses

	2024 **£000**	2023 £000
Finance expenses:		
Bank interest	**(4)**	(97)
Leases	**(7)**	(3)
Cash sweep interest	**(795)**	-
	(806)	(100)

7 Staff costs

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

	2024 **Number**	2023 Number
By activity:		
Production	**201**	195
Management and administration	**35**	61
	236	256

Their aggregate remuneration comprised:

	2024 **£000**	2023 £000
Wages and salaries	**8,460**	8,877
Social security costs	**834**	918
Other pension costs	**332**	180
	9,626	9,975

Included in other pension costs are £332,000 (2023: £180,000) in respect of the defined contribution scheme.

8 Directors' remuneration

All of the directors of the Company are remunerated by other Babcock Group companies in the current and prior year. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

9 Tax

Tax (credit)/expense included in income statement

	2024 £000	2023 £000
Deferred tax:		
Origination and reversal of timing differences	**(3)**	(2)
Adjustments in respect of prior years	**-**	34
Impact of change in UK tax rate	**-**	(1)
Total deferred tax charge/(credit)	**(3)**	31
Tax on profit/(loss)	**(3)**	31

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

	2024 £000	2023 £000
Profit/(loss) before income tax	**349**	(3,796)
Loss before income tax multiplied by standard UK corporation tax rate of 25% (2023: 19%)	**87**	(721)
Effects of:		
Expenses not deductible for tax	**14**	11
Group relief for nil consideration	**(104)**	708
Adjustments in respect of prior years	**-**	34
Impact of change in UK tax rate	**-**	(1)
Total tax (credit)/ charge for the year	**(3)**	31

9 Tax *(continued)*

Deferred tax

The major components of the deferred tax assets are recorded as follows.
All deferred tax related to accelerated capital allowances:

	Accelerated capital allowances £000
Deferred tax assets	
At 1 April 2023:	**24**
- Current year credit	**3**
At 31 March 2024	**27**
At 31 March 2022	**55**
- Current year debit	**(31)**
At 31 March 2023:	**24**

All tax losses are utilised through Group relief. There are no losses carried forward and therefore no deferred tax impact.

10 Intangible assets

	Development costs £000	Total £000
Cost		
At 1 April 2023	308	308
At 31 March 2024	**308**	**308**
Accumulated depreciation		
At 1 April 2023	44	44
Charge for the year	48	48
At 31 March 2024	**92**	**92**
Net book value		
At 31 March 2024	**216**	**216**
At 31 March 2023	264	264

11 Tangible assets

	Freehold & Long Leasehold Buildings £000	Plant and equipment £000	Total £000
Cost			
At 1 April 2023	**3,293**	**1,546**	**4,839**
Additions	-	120	120
Disposals	-	(32)	(32)
At 31 March 2024	**3,293**	**1,634**	**4,927**
Accumulated depreciation			
At 1 April 2023	**1,461**	**1,107**	**2,568**
Charge for the year	57	115	172
At 31 March 2024	**1,518**	**1,222**	**2,740**
Net book value			
At 31 March 2024	**1,775**	**412**	**2,187**
At 31 March 2023	1,832	439	2,271

At the year-end, the amount of contractual commitments for the acquisition of property, plant and equipment was £nil (2023: £nil).

12 Right of use assets

	Plant and equipment £000	Total £000
Cost		
At 1 April 2023	151	151
Additions	121	121
At 31 March 2024	**272**	**272**
Accumulated depreciation		
At 1 April 2023	(66)	(66)
Charge for the year	(88)	(88)
At 31 March 2024	**(154)**	**(154)**
Net book value		
At 31 March 2024	**118**	**118**
At 31 March 2023	85	85

13 Inventories

	2024 £000	2023 £000
Raw materials and Consumables	**3,240**	1,722
Work in Progress	**2,149**	3,931
	5,389	5,653

Inventories are stated after provisions for impairment of £511,000 (2023: £470,000).

There is no significant difference between the replacement cost of work in progress and finished goods and goods for resale and their carrying amount.

The cost of inventory recognised as an expense and included in cost of sales amounted to £22,377,000 (2023: £19,103,000).

14 Trade and other receivables

	2024 £000	2023 £000
Amounts falling due within one year:		
Trade receivables	**5,808**	7,482
Deferred tax (note 9)	**27**	24
Amounts due from group undertakings	**614**	58
Other receivables and prepayments	**917**	355
Accrued income	**8,645**	8,158
	16,011	16,077

Amounts owed by group undertakings are unsecured and repayable on demand and are non-interest bearing.

Trade receivables are stated after provision for impairment of £129,000 (2023 £nil).

15 Trade and other payables

	2024 £000	2023 £000
Amounts falling due within one year:		
Trade creditors	**743**	2,193
Amounts owed to parent and group undertakings	**19,648**	17,199
Accruals	**2,286**	2,170
Deferred income	**4,152**	3,613
Other taxation and social security	**222**	2,880
	27,051	28,055

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

16 Lease liabilities

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

	2024	2023
	£000	£000
Opening value of liability	**88**	64
Additions	**121**	47
Interest charged	**7**	3
Payments	**(95)**	(26)
Closing value of liability	**121**	88

The entity leases plant & machinery, and vehicles, under non-cancellable operating leases.

Discounted future minimum lease payments are as follows:

	2024	2023
	£000	£000
Within one year	**59**	33
In more than one year, but not more than five years	**62**	55
Carrying value of liability	**121**	88

17 Provisions for liabilities

	VAT provision	**Warranty provision**	**Staff Provision**	**Total**
	£000	**£000**	**£000**	**£000**
At 1 April 2022	**108**	**64**	**-**	**172**
Charged to the income statement	200	-	75	275
Utilised to the income statement	-	-	-	-
At 31 March 2023	**308**	**64**	**75**	**447**
Charged to the income statement	150	102	-	252
Utilised to the income statement	-	(9)	(75)	(84)
At 31 March 2024	**458**	**157**	**-**	**615**

17 Provisions for liabilities *(continued)*

The VAT provision relates to a potential penalty that HMRC may decide to charge in relation to underpaid VAT in the past 4 years. This was something identified by the company during the year and a subsequent voluntary disclosure was made to HMRC, which was accepted by HMRC and the underpaid VAT settled. The provision is expected to be utilised during the next 12 months.

Warranty Provision relates to costs the company expects to incur in relation to armoured vehicles sales. It is expected to be utilised in the next 12 months.

Staff provision balance is £nil at 31 March 2024. The balance utilised in the year related to redundancies.

18 Called up share capital

	2024	2023
	£	£
Allotted and fully paid		
92 ordinary A shares of £1 each (2022: 92)	**92**	92
108 ordinary B shares of £1 each (2022: 108)	**108**	108
40 ordinary C shares of £1 each (2022: 40)	**40**	40
4 ordinary D shares of £1 each (2022: 4)	**4**	4
1 ordinary E shares of £1 each (2022: 1)	**1**	1
1 ordinary F shares of £1 each (2022: 1)	**1**	1
	246	246

Classes of shares A, B and C rank pari passu in respect of dividend entitlement and voting rights. Classes D, E and F have restricted dividend and voting rights.

19 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.

20 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).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystalise.

21 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.

22 Post Balance Sheet Events

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

Notes to the financial statements

23 Ultimate parent undertaking

The Company's immediate parent Company is Babcock Critical Services Limited, a limited Company registered in Scotland. 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