Babcock Vehicle Engineering Limited

Annual report

For the year ended 31 March 2021

Company registration number:

00434529

Babcock Vehicle Engineering Limited

Directors and advisors

Current directors
C Spicer
J Parker
S Doherty

Company secretary
Babcock Corporate Secretaries Limited

Registered office
33 Wigmore Street
London
W1U 1QX

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
One Chamberlain Square
Birmingham
B3 3AX

Strategic report for the year ended 31 March 2021

The directors present their Strategic report on the Company for the year ended 31 March 2021.

Principal activities

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

Review of the Business

	2021	2020 Restated
	£000	£000
Revenue	**25,592**	29,109
Operating (Loss)/Profit	**(1,221)**	1,103

Revenue and Operating (Loss) / Profit for the year ended 31 March 2020 has been restated. Following a review of the Company's revenue recognition, it has been identified that a number of adjustments were required to the prior year revenue, for further information please refer to note 4.

Over the course of the year, the Company's business activities were adversely affected by the impact of COVID-19.

In the last year the Company has continued to maintain the high levels of quality and service to its existing and new customers and deliver a consistently high service to the customer throughout the year.

Management continues to use all relevant financial information in operating the Company's core contracts, in reviewing its production and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions, including KPIs of a non-financial nature.

Principal risks and uncertainties

The principal risk of the Company is external market factors. The Company is dependent upon external party's vehicle replacement cycles and funding availability of different government agencies. The Company monitors projected replacement programmes and continually reviews its pipeline of opportunities to ensure it is appropriately resourced and has the appropriate level of infrastructure.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the expected impact of COVID-19 is provided on pages 84 to 95 of the annual report of Babcock International Group PLC for the year ended 31 March 2021, which does not form part of this report.

Strategic report for the year ended 31 March 2021 *(continued)*

Future developments

Following the COVID-19 outbreak, the Company has continued to work closely with its customers in order to understand their priorities in response to the pandemic. The business has implemented the necessary plans in consultation with key customers to continue to deliver on contracts where possible. The directors will continue to monitor the impact and disruption caused by COVID-19 and will continue to implement a range of measures to mitigate the operational, financial and commercial impacts as they emerge.

One of the Company's major conversion contracts was due to come to an end in March 2022, but this was successfully retendered in June 2022 with a new 4year contract being agreed with an optional one-year extension. Similarly, another long running government contract due to end in FY22, was extended for a period of 2 years.

With the end of production by Toyota of its Land Cruiser 200 vehicle and the subsequent release of its Land Cruiser 300 (LC300) platform in August 2021, Babcock Vehicle Engineering Limited have been the first armouring Company to design and test and fully certified armoured solution, achieved in March 2021. This means that Babcock is at the forefront of being able to offer and indeed has already sold a number of, armoured LC300s to its multiple government customers.

Attention in the short to medium term has been on continuing service to key UK critical key worker industries, managing cashflow and working capital, with the directors of the opinion that the Company can continue to operate within its current and future financial parameters, and so continue to meet its debts as they fall due.

Beyond this the longer-term strategy is to grow its market share and profitability. The directors continue to develop its capabilities and workforce to facilitate existing market sector expansion. As such, the directors believe the Company to be a going concern and have adopted this assumption in preparing the financial statements.

The Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The growth and performance of the Land division of Babcock International Group PLC, which includes the Company, is discussed on pages 54 and 55 of the annual report of Babcock International Group PLC for the year ended 31 March 2021, which does not form part of this report.

On behalf of the board

J Parker

Director

28 November 2022

Directors' report

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2021.

Results and dividends

The Company's results for the year are set out in the income statement on page 11 showing an operating loss for the financial year of £1,221,000 (2020: £1,103,000 profit). At 31 March 2021 the Company had net assets of £648,000 (2020: £1,922,000).

A total dividend of £nil (2020: £6,000,000) has been paid in the current year and no final dividend for the year ended 31 March 2021 has been provided by the directors (2020: £nil).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in price risk, credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Price risk
The Company is exposed to price risk as a result of its operations. This risk is mitigated by specific functions which assess pricing in respect of both selling and procurement activities. The Company has no exposure to equity securities price risks as it holds no listed equity investments.

Credit risk
The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The Company also monitors existing customer accounts on an on-going basis and takes appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk
The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate risk
The Company has interest-bearing assets. Cash balances accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors' report *(continued)*

Directors

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

M Hayward (Appointed 3 August 2020, resigned 23 November 2021)
S White (Resigned 3 August 2020)
J Parker (Appointed 14 September 2020)
S West (Resigned 14 September 2020)
R Taylor (Resigned 31 October 2021)
I Urquhart (Resigned 31 May 2022)
C Spicer (Appointed 23 November 2021)
S Doherty (Appointed 31 May 2022)

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

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 *(continued)*

Statement of directors' responsibilities in respect of the financial statements

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

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under Company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 also 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.

Directors' confirmations

In the case of each director in office at the date the directors' report is approved:

- so far as the director is 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 that information.

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.

Directors' report *(continued)*

Going Concern

The directors have prepared the financial statements on a going concern basis as confirmation has been received from Babcock Southern Holdings Limited, that they will ensure the Company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements unless the Company generates sufficient cash flows from its operations to meet the repayments and its third-party obligations as they fall due.

Appointment of independent auditors

PricewaterhouseCoopers LLP has now completed its final audit as external auditors. Deloitte LLP has been selected as the Company's external auditors for the financial year ended 31 March 2022 following shareholder approval at the Annual General Meeting of the Ultimate Parent, Babcock International Group PLC.

On behalf of the board

J Parker

Director

28 November 2022

Independent auditors' report to the members of Babcock Vehicle Engineering Limited

Report on the audit of the financial statements

Opinion

In our opinion, Babcock Vehicle Engineering Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: Statement of financial position as at 31 March 2021; Income statement, Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Company's ability to continue as a going concern.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

Auditors' 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 auditors' 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.

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.

Based on our understanding of the Company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting inappropriate journal entries and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management to enquire of any known instances of non-compliance with laws and regulations and fraud;
- Reading board minutes for evidence of breaches of regulations and reading relevant correspondence;
- Challenging assumptions and judgements made by management in their significant accounting estimates;
- Identifying and testing journal entries, in particular journal entries posted with unexpected account combinations; and
- Incorporating unpredictability into the nature, timing and/or extent of our testing.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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 auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

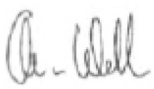
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Alan Walsh (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
28 November 2022

Income statement

for the year ended 31 March 2021

	Note(s)	2021 £000	2020 Restated £000
Revenue	4,5	**25,592**	29,109
Cost of sales		**(25,438)**	(27,536)
Gross profit		**154**	1,573
Administrative expenses		**(1,375)**	(470)
Operating (loss)/profit	6	**(1,221)**	1,103
Finance expenses	7	**(30)**	(30)
(Loss)/profit before income tax		**(1,251)**	1,073
Income tax (expense)/credit	10	**(23)**	31
(Loss)/profit for the financial year		**(1,274)**	1,104

All of the above results derive from continuing operations.

Statement of comprehensive Income

for the year ended 31 March 2021

	2021 £000	2020 Restated £000
(Loss)/profit for the financial year	**(1,274)**	1,104
Total comprehensive (expense)/income for the financial year	**(1,274)**	1,104

Statement of financial position

as at 31 March 2021

	Note	2021	2020 Restated
		£000	£000
Fixed assets			
Tangible assets	11	**1,958**	2,047
Right of use assets	12	**153**	58
		2,111	2,105
Current assets			
Inventories	13	**2,586**	3,792
Trade and other receivables	14	**13,659**	9,022
Cash and cash equivalents		**1,521**	1,798
		17,766	14,612
Trade and other payables amounts falling due within one year	15	**(19,108)**	(14,767)
Net current liabilities		**(1,342)**	(155)
Trade and other payables amounts falling due after more than one year	16	**(121)**	(28)
Net assets		**648**	1,922
Equity			
Called up share capital	17	**-**	-
Retained earnings		**648**	1,922
Total shareholders' funds		**648**	1,922

The notes on pages 14 to 30 are an integral part of these financial statements.

The financial statements on pages 11 to 30 were approved by the board of directors and signed on its behalf by:

J Parker

Director

28 November 2022

Statement of changes in equity
for the year ended 31 March 2021

	Note	Called up share capital £000	Retained Earnings £000	Total Shareholders' Funds £000
Balance at 1 April 2019 (previously stated)		**-**	**10,127**	**10,127**
Prior year adjustment	4	-	(3,309)	(3,309)
Balance at 1 April 2019 (restated)		**-**	**6,818**	**6,818**
Total comprehensive income (previously stated)		-	1,699	1,699
Prior year adjustment	4	-	(595)	(595)
Dividends paid	18	-	(6,000)	(6,000)
Balance at 31 March 2020 and at 1 April 2020 (restated)		**-**	**1,922**	**1,922**
Total Comprehensive Expense		**-**	**(1,274)**	**(1,274)**
Dividends paid	18	**-**	**-**	**-**
Balance at 31 March 2021		**-**	**648**	**648**

Notes to the financial statements

1 General information

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

2 Summary of significant 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, in accordance with the Companies Act 2006 as confirmation has been received from Babcock Southern Holdings Limited, that they will ensure the Company is able to meet its liabilities as they fall due for a period of at least 12 months from the date of approval of these financial statements unless the Company generates sufficient cash flows from its operations to meet the repayments and its third party obligations as they fall due.

The financial statements are prepared in pounds sterling which is the functional currency of the Company and rounded to the nearest £'000.

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 is a wholly owned subsidiary of Babcock Critical Services Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
   - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
   - paragraph 73(e) of IAS 16 Property, plant and equipment; and
   - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
e) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.

Basis of preparation (continued)

2 Summary of significant accounting policies (continued)

f) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases.
g) The requirements of paragraph 58 of IFRS 16.
h) The following paragraphs of IAS 1, 'Presentation of financial statements':
- 10(d), 10(f), 16, 38, 40, 111, and 134-136

i) IAS 7, 'Statement of cash flows'
j) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
k) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
l) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Adoption of new and revised standards

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2021 that have a material impact on the Company's financial statements.

Revenue

Revenue recognised represents income derived from contracts with customers for the provision of goods and services in the ordinary course of business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, 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 and accounted for as separate performance obligations 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 goods or services to the customer are separately identifiable consideration is given to whether the objective of a contract is to transfer each of those goods or services individually or, instead, to transfer a combined item or items to which the promised goods or services are inputs. Where a promised good or service is not distinct, these are combined with other promised goods or services until a bundle of goods or services is identified that is distinct and this is then accounted for as a single performance obligation.

(b) Allocation of contract price to performance obligations

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future. Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. The Company's contracts typically do not include significant financing components.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition

Revenue is recognised when a performance obligation is satisfied by transferring a promised good or service to a customer. For each performance obligation identified, revenue is recognised based on whether the performance obligation is satisfied over time or at a point in time. Recognition over time criteria applies when one of the following criteria is met:

(a) the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs;
(b) the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced or;
(c) the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

Profit is only recognised to the extent that the final outcome on contracts can be reliably assessed. Any expected loss on a contract is recognised immediately in the income statement.

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 balance sheet date) at the following annual rates:

Freehold property	2% to 8%
Plant and equipment	6.6% to 33.3%

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.

Inventory and work in progress

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

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(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 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 substantially enacted by the balance sheet 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.

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.

Pensions costs and other post-retirement benefits

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

Foreign currencies

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local 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 balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Summary of significant accounting policies *(continued)*

Lessee Accounting

For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the present value of future lease payments are capitalised to the statement of financial position in accordance with IFRS 16 'Leases', with a corresponding right of use asset recognised.

Lease payments are discounted using the interest rate implicit in the lease or the incremental borrowing rate where the interest rate implicit in the lease is not available.
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.
Interest on the lease liability is recognised as a finance expense in the income statement over time, with the rate being determined at lease inception based on a number of factors including asset type, lease currency and lease term.

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 or low-value leases are expensed straight-line to the income statement as permitted by IFRS 16 'Leases'. A lease is considered short-term if the total lease length is less than 12 months, and low value if the underlying asset would cost less than £5,000 to buy new.

Provisions for liabilities

A provision is recognised in the balance sheet 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 has been 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. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of work-in-progress for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are updated regularly. A provision is made where the operating leases are deemed to be onerous.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

2 Summary of significant accounting policies *(continued)*

Dividend distribution

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

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.

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 forward looking estimates may result in a material adjustment to the carrying amount of assets and liabilities in the next financial year.

Revenue recognition - identification of performance obligations

Revenue recognition is initially dependant on identifying the number of specific performance obligations that exist within a contract. Judgement has been exercised in determining whether 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

Revenue recognition is dependant on whether the Company is assessed to be acting as a principal or agent in relation to the delivery of the specific performance obligations. The assessment is based on several factors including whether the Company is primarily responsible for fulfilling the promise to provide the specified good or service, whether the Company has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer, and whether the Company has discretion in establishing the price for the specified good or service. 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).

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Revenue recognition – timing of recognition

The timing of revenue recognition is dependant 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

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.

Notes to the financial statements *(continued)*

4 Prior year restatement

The following tables show the effect on the 2020 income statement and balance sheet of the prior year restatements:

	2020 Previously published	a)Parts mispricing	b) Principal versus agent	c) Timing of revenue recognition	**2020 Restated**
	£000	£000	£000	£000	**£000**
Revenue	**32,533**	(567)	(2,753)	(104)	**29,109**
Cost of sales	**(30,397)**	-	2,753	108	**(27,536)**
Gross profit	**2,136**	(567)	-	4	**1,573**
Administrative expenses	**(470)**	-	-	-	**(470)**
Operating profit	**1,666**	(567)	-	4	**1,103**
Finance income/(expense)	**2**	(32)	-	-	**(30)**
Profit before income tax	**1,668**	(599)	-	4	**1,073**
Income tax credit	**31**	-	-	-	**31**
Profit for the financial year	**1,699**	(599)	-	4	**1,104**

Notes to the financial statements *(continued)*

4 Prior year restatement (continued)

Restatement of financial position

	2020 Previously published £000	a)Parts mispricing £000	b)Principal versus agent £000	c) Timing of revenue recognition £000	2020 Restated £000
Fixed assets					
Tangible assets	**2,047**	-	-	-	**2,047**
Right of use assets	**58**	-	-	-	**58**
	2,105	-	-	-	**2,105**
Current assets					
Inventories	**5,385**	-	(54)	(1,538)	**3,793**
Trade and other receivables	**7,425**	-	54	1,542	**9,021**
Cash and cash equivalents	**1,798**	-	-	-	**1,798**
	14,608	-	-	4	**14,612**
Trade and other payables amounts falling due within one year	**(10,859)**	(3,908)	-	-	**(14,767)**
Net current assets	**3,749**	**(3,908)**	**-**	**4**	**(155)**
Trade and other payables amounts falling due after more than one year	**(28)**	-	-	-	**(28)**
Net assets	**5,826**	(3,908)	-	4	**1,922**
Equity					
Retained earnings	**5,826**	(3,908)	-	4	**1,922**
Total shareholders' funds	**5,826**	(3,908)	-	4	**1,922**

a) Following a review of the Company's revenue recognition, it has been identified that parts had been mispriced on one contract. The correction of this error results in a decrease in revenue of £0.6 million for the year ended 31 March 2020. The restatement of the balance sheet includes an increase in trade and other payables falling due within one year of £3.9 million and a corresponding decrease in retained earnings of £3.9 million at 31 March 2020. Of this prior year restatement £3.3 million arose on or before 31 March 2019 and was recorded in the 1 April 2019 opening balance sheet in these financial statements, with the continuing impact of this error in the year ended 31 March 2020 being recorded in the income statement for the year ended 31 March 2020.

4 Prior year restatement (continued)

b) The Company has also re-examined its position as to whether it is acting as agent or principal in certain of its contracts, particularly with reference to the purchase of base vehicles for conversion. Following reassessment of the contractual terms and practical delivery it has concluded that certain transactions should have been treated as agent as opposed to principal. This results in a decrease in revenue and cost of sales of £2.8million as these balances are now presented net as opposed to gross. In addition, there was a reclassification of acquired vehicles from work in progress in inventory to other receivables of £0.1 million in the year ended 31 March 2020. There is no impact to reported profit or cash flow as a result of these adjustments in the year ended 31 March 2020.

c) As part of the re-assessment of revenue recognition it was concluded that for certain transactions revenue should have been recognised over time as opposed to point in time. This has resulted in a decrease to revenue of £0.1 million and a reduction in cost of sales of £0.1 million in the year ended 31 March 2020. In addition, there was an associated reclassification from inventories to trade & other receivables of £1.5 million.

5 Revenue

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

	2021	2020 Restated
	£000	£000
By area of activity:		
Conversion work (principal, over time)	**17,114**	19,705
Supply and conversion work (principal, point in time)	**8,478**	9,404
	25,592	29,109

£25.2 million (2020: £29.1 million) of revenue in the year ending 31 March 2021 originated in the United Kingdom.

6 Operating (loss)/profit

Operating (loss)/profit is stated after charging:

	2021	2020 Restated
	£000	£000
Depreciation of tangible fixed assets	**135**	142
Depreciation of right of use assets	**43**	11
Loss/(Profit) on sale of fixed asset	**1**	(424)
Inventory charged as an expense	**13,943**	17,032
Fees payable to the Company's auditors;		
- Audit Services	**35**	22
- Non-Audit Services	**-**	-

Notes to the financial statements *(continued)*

6 Operating (loss)/profit (continued)

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

7 Finance expenses

	2021	2020 Restated
	£000	£000
Finance (expenses)/income:		
Bank interest	**(10)**	3
Leases	**(7)**	(1)
Other interest	**(13)**	(32)
	(30)	(30)

8 Staff costs

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

	2021 Number	2020 Number
By activity:		
Production	**229**	247
Management and administration	**69**	56
	298	303

Their aggregate remuneration comprised:

	2021	2020
	£000	£000
Wages and salaries	**8,380**	9,146
Social security costs	**819**	816
Other pension costs	**350**	347
	9,549	10,309

Included in other pension costs are £350,000 (2020: £347,000) in respect of the defined contribution scheme.

9 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.

Notes to the financial statements *(continued)*

10 Income tax (expense)/credit

Tax expense/(credit) included in income statement

	2021 £000	2020 £000
Current tax:		
UK Corporation tax on profits for the year	**-**	-
Current tax charge for the year	**-**	-
Deferred tax:		
Origination and reversal of timing differences	**2**	(13)
Adjustments in respect of prior years	**21**	(11)
Impact of change in UK tax rate	**-**	(7)
Total deferred tax charge/(credit)	**23**	(31)
Tax on (loss)/ profit	**23**	(31)

	2021 £000	2020 £000
(Loss)/Profit before income tax	**(1,251)**	1,073
(Loss)/Profit before income tax multiplied by standard UK corporation tax rate of 19% (2019: 19%)	**(238)**	204
Effects of:		
Expenses not deductible for tax	**69**	25
Group relief for nil consideration	**171**	(242)
Adjustments in respect of prior years	**21**	(11)
Impact of change in UK tax rate	**-**	(7)
Total tax charge/(credit) for the year	**23**	(31)

In 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements.

Notes to the financial statements *(continued)*

11 Tangible assets

	Freehold & Long Leasehold Buildings £'000	Plant and equipment £'000	Assets Under Construction £'000	Total £000
Cost				
At 1 April 2020	3,238	1,377	34	4,649
Additions	-	85	-	85
Disposals	-	(268)	(34)	(302)
At 31 March 2021	**3,238**	**1,194**	**-**	**4,432**
Accumulated depreciation				
At 1 April 2020	1,423	1,179	-	2,602
Charge for the year	51	84	-	135
Disposals	-	(263)	-	(263)
At 31 March 2021	**1,474**	**1,000**	**-**	**2,474**
Net book value				
At 31 March 2021	**1,764**	**194**	**-**	**1,958**
At 31 March 2020	1,815	198	34	2,047

At the year-end, the amount of contractual commitments for the acquisition of property, plant and equipment was £nil (2020: £nil).

Notes to the financial statements *(continued)*

12 Right of use assets

	Plant and equipment £000	Total £000
Cost		
At 1 April 2020	69	69
Additions	138	138
Disposals	-	-
At 31 March 2021	**207**	**207**
Accumulated depreciation		
At 1 April 2020	(11)	(11)
Charge for the year	(43)	(43)
Terminations	-	-
At 31 March 2021	**(54)**	**(54)**
Net book value		
At 31 March 2021	**153**	**153**
At 31 March 2020	58	58

13 Inventories

	2021 **£000**	2020 Restated £000
Raw materials and Consumables	792	1,003
Work in Progress	1,794	2,629
Finished goods and goods for resale	-	160
	2,586	**3,792**

Inventories are stated after provisions for impairment of £342,000 (2020: £178,000).

Notes to the financial statements *(continued)*

14 Trade and other receivables

	2021	2020 Restated
	£000	£000
Amounts falling due within one year:		
Trade receivables	**10,310**	6,796
Deferred tax (note 21)	**54**	77
Contract asset	**2,068**	1,543
Other receivables, prepayments and accrued income	**1,227**	606
	13,659	9,022

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 £24,000 (2020 £nil).

15 Trade and other payables: amounts falling due within one year

	2021	2020 Restated
	£000	£000
Amounts falling due within one year:		
Trade creditors	**837**	726
Lease liabilities	**37**	30
Amounts owed to parent and group undertakings	**3,361**	3,052
Corporation tax	**1,458**	1,458
Payments received on account	**4,999**	2,294
Accruals and deferred income	**4,063**	3,299
Other contract liabilities	**4,353**	3,908
	19,108	14,767

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

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 19(a)).

Other contract liabilities of £4,353,000 (2020: £3,908,000) relate to the misstatement of revenue recognition (see Note 4).

Notes to the financial statements *(continued)*

16 Lease liabilities

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

Discounted future minimum lease payments are as follows:

	2021	2020
	£000	£000
Within one year	**37**	30
In more than one year, but not more than five years	**121**	28
After five years	**-**	-
Carrying value of liability	**158**	58

17 Called up share capital

	2021	2020
	£	£
Allotted and fully paid		
92 ordinary A shares of £1 each (2020: 92)	**92**	92
108 ordinary B shares of £1 each (2020: 108)	**108**	108
40 ordinary C shares of £1 each (2020: 40)	**40**	40
4 ordinary D shares of £1 each (2020: 4)	**4**	4
1 ordinary E shares of £1 each (2020: 1)	**1**	1
1 ordinary F shares of £1 each (2020: 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.

18 Dividends paid

Dividends declared and paid were £nil (2020: £6,000,000), this is equivalent to £nil per share (2020: £24,390). There are no plans for a final dividend.

19 Guarantees and financial commitments

Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2020: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2020: £nil).

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.

Notes to the financial statements *(continued)*

20 Related party disclosures

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

21 Deferred taxation

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

Deferred tax (assets)	**Accelerated capital allowances £000**
At 1 April 2019:	**(46)**
- Current year credit	**(13)**
- Prior year adjustment	**(11)**
- Impact of change in tax rate	**(7)**
At 31 March 2020:	**(77)**
At 1 April 2020:	**(77)**
- Current year credit	**2**
- Prior year adjustment	**21**
- Impact of change in tax rate	**-**
At 31 March 2021:	**(54)**

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

22 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