Sheffield Forgemasters International Limited

December 2024

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SHEFFIELD FORGEMASTERS INTERNATIONAL LIMITED

Annual Report and Accounts

2023-24

Presented to Parliament

by the Secretary of State for Defence

by Command of His Majesty

December 2024

Sheffield Forgemasters International Limited

Annual Report and Financial Statements

Year ended 31 March 2024

Registered number: 04883675

Sheffield Forgemasters International Limited

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Sheffield Forgemasters International Limited

Officers and professional advisors

Directors

Sir Tim Fraser, KCB – Chair and Non-Executive Director
Gary Nutter – Chief Executive Officer (appointed 18 March 2024)
Gareth Barker – Chief Operating Officer
Amy Grey – Chief Financial Officer (appointed 27 July 2023)

Norman Bone – Non-Executive Director (appointed 1 January 2024)
Simon Patrick Butcher – Non-Executive Director
Julie Colgan – Non-Executive Director (appointed 24 May 2023)
Andrew McNaughton – Non-Executive Director

Secretary

Sinead Proctor (appointed 18 October 2023)

Registered office

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Barclays Bank PLC
2nd Floor
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Armstrong Watson Audit Limited
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LS1 5QS

Sheffield Forgemasters International Limited

Statement from the Chair

Sheffield Forgemasters International Limited (the "Company" or "SFIL") and its subsidiaries (together "the Group") are a UK business with the unique capability to design and manufacture large, high-quality castings and forgings to the most exacting standards. The business, based in Sheffield with 641 employees, operates in defence and commercial markets. It provides components that underpin the UK's Strategic UK Defence Programmes.

On 19 August 2021 the Secretary of State for Defence for Great Britain and Northern Ireland acquired 100% of the share capital of the Company, recognising the unique capability of the Group. The Secretary of State for Defence intends to invest substantially over the next 10 years to recapitalise defence-critical plant and equipment. This will enable the Group to be a reliable supplier of high-quality components to UK Defence Programmes over the long-term. The Board is delighted to have secured the long-term future of the business and is working with our customers, employees, suppliers and the local community to develop a sustainable business that benefits all of our stakeholders.

These financial statements cover the year ended 31 March 2024 (comparative figures are for the year ended 31 March 2023) and report an operating loss for that period of £3.9m (2023: loss of £4.8m) after recognising impairment charges of £nil (2023: £nil) and exceptional costs of £nil (2023: £0.4m). Prior to these items, the underlying operating loss for the year was £3.9m (2023: operating loss of £4.4m).

The improvement in the loss in the period was driven by a number of significant headwinds including the continuation of the Russia-Ukraine conflict, continuing increased inflation leading to a rising cost base and continuing high wholesale energy prices and incidences of major machinery breakdown limiting the availability of key production assets.

I am pleased to report that the Group won £193.0m (2023: £72.5m) of new orders during the period. Orders by UK Defence Programmes were higher than previous years as activity on the SSNA submarine programme accelerates. UK Defence Programmes provide the core revenues of the Group over the long-term and are expected to grow as the SSNA programme continues. Commercial orders were £28.0m (2023: £37.0m); the business secured new orders from US Defence, Steel Processing sectors and Engineering products. US Defence orders are typically ordered in bulk, the last one being received in 2023 and accounts for the lower level of orders in 2024. Commercial markets have shown signs of recovery, although remain challenging particularly in the face of inflationary pressures.

Continued strong progress has been made on the recapitalisation of defence-critical assets. The investment in site infrastructure is progressing well with demolition of existing buildings having been completed and piling on the new forge building commenced. We have placed orders for further machining capability. We have acquired 21 acres of land over four plots which enables the development of new facilities to allow for reshaping of the site for optimum use and maximum throughput. The largest, 16-acre plot will house a 30,000m2 machining line to service UK and AUKUS submarine programmes. A second plot with an existing 2,400m2 manufacturing unit/offices, provides vehicular access to the proposed machine facility, a WIP storage area, and a training facility. Third/fourth plots provide near-term contractor car-parking and construction materials storage. This allows full production to continue through the existing plant, facilitating more efficient recapitalisation than reconfiguring existing facilities. The rate of investment has increased and the Directors expect the rate of investment to accelerate over the next three years which will contribute to the transformation of the production capability on-site and address reliability issues relating to ageing plant and equipment.

The Group held cash of £69.2m at March 2024 (2023: cash of £44.5m). A lending facility with a limit of £15.0m is in place with the Ministry of Defence which expires on 31 December 2025. Our owner has continued to inject equity to fund the recapitalisation programme.

Sheffield Forgemasters International Limited

Statement from the Chair (continued)

The Group prioritises developing a diverse and high-performing workforce by attracting, investing in and retaining diversity of talent, with the right skills and behaviours to create an inclusive workplace. The Directors are very mindful of preserving the level of strategic SQEP (suitably qualified and experienced personnel) to support the Group's unique capabilities. The Group will also continue to emphasise improvement in its health, safety and wellbeing and environmental performance, by investing in safety enhancing projects. We also place a high premium on our research and development capability and will prioritise driving technical innovation for the benefit of our customers.

In March 2024 Gary Nutter joined the Board as Chief Executive Officer. As Gary joined, David Bond, who served as Chief Executive Officer for over five years, left the Board. The Board would like to thank David for his considerable contribution and service to the business and wish him every success for the future.

The Board welcomes Non-Executive Director Norman Bone to the Board, who brings considerable experience to the business.

In December 2023 Non-Executive Director Janice Munday left the board. The Board would like to thank Janice for her contribution and service to the business over the past five years.

The Board would also like to thank the employees of Sheffield Forgemasters for their considerable efforts and dedication through this period of change as we continue to work closely with our owner to drive the recapitalisation of defence-critical assets, investing in our unique capabilities to secure our role as a long-term supplier to the UK Defence sector.

Sir Tim Fraser, KCB
Chair
24 October 2024

Sheffield Forgemasters International Limited

Strategic report

The Directors present their strategic report for the year ended 31 March 2024.

Strategic objectives and Business plan

Sheffield Forgemasters International Limited (the "Company" or "SFIL") and its subsidiaries (together "the Group") are a UK business with the unique capability to design and manufacture large, high-quality castings and forgings to the most exacting standards. The business, based in Sheffield with 641 employees, operates in defence and commercial markets. It provides components that underpin the UK's Strategic UK Defence Programmes. There is a business wide transformation programme underway to significantly recapitalise defence-critical manufacturing equipment and ensure we can continue delivery into the future.

The Board and the Ministry of Defence have agreed these strategic objectives for Sheffield Forgemasters, designed to secure UK Defence outputs and recapitalise the plant and equipment:

- Deliver the UK Defence business outputs by maintaining the capability needed to deliver high-grade castings and forging products on a commercially sustainable basis;
- Deliver its capital investment programme successfully and efficiently demonstrating value for money for the UK taxpayer;
- Deliver a sustainable and resilient long-term business, by ensuring profitable income streams across its defence and commercial business activities;
- Continuously improve the efficiency and performance of the Company, utilising industry best practice in key areas, including: technical innovation, health and safety, environment and sustainability in line with Government targets (i.e. HMG net carbon zero commitments); and
- Encourage a diverse and high-performing workforce by attracting, investing in and retaining diversity of talent, with the right skills and behaviours that generate an inclusive workplace.

The primary objective is to deliver the UK Defence business outputs.

The Board has developed a five-year Business Plan to drive delivery of these objectives focused on:

- Securing long-term sovereign capability for the UK's (and its allies') Defence needs through the recapitalisation programme and maintenance/development of essential skills;
- Meeting the required UK Defence sector production load by 2029;
- Improving delivery performance;
- Targeted capital investment replacing aged and unreliable UK Defence critical equipment, with modern, efficient, digitally-enabled assets;
- Improved site wide flood protection;
- Growth in commercial sector revenues, with penetration of clean energy markets a priority;
- Embedding a continuous improvement culture, targeting:
    - Improved cost and lead-time performance;
    - Deeply embedded health and safety culture and practices;
    - Adoption of new technology and ways of working; and
    - Tangible progress on the drive to net zero carbon.
- Developing a high-performing workforce, reflecting the diversity of our local community and at least matching our manufacturing peers, with the resultant benefits to business culture, teamwork and performance; and
- Providing an inclusive, modern working environment that will enable the maintenance, development and retention of defence-critical suitably qualified and experienced personnel (SQEP).

Performance report

During the year ended 31 March 2024, the Group experienced several challenges, including an increasing cost base, continued high cost of energy, and a growing incidence of machinery breakdown and unplanned maintenance. However, the Group has responded positively to each of these challenges by:

- Managing its exposure to rising energy prices by adjusting commercial pricing in the marketplace and pursuing a number of energy-efficiency initiatives;
- Delivery of capital investment programmes focused on replacement of old and unreliable equipment;
- Continuing the recapitalisation of defence-critical assets;
- Continuing flood resiliency investments;
- Gaining new customers in traditional commercial markets; and
- Continuing to pursue growth in new commercial markets.

UK Defence has continued to provide a strong flow of orders from major programmes. Commercial markets remain impacted by the Russia-Ukraine conflict, with demand from the Oil and Gas and Steel Processing sectors remaining subdued. It is expected that these markets will continue to show signs of sustained recovery.

For the medium-term, the Group has identified markets that offer growth opportunities, including Global Defence, Civil Nuclear and Renewable Energy, and is actively developing partnerships in these sectors to build its market presence. Diversifying the market exposure of the Group will be a key focus over the coming years.

Following the unprecedented increase in wholesale energy prices in August 2021, the business has increased its focus on energy consumption. Further details on the Group's energy consumption and carbon emissions are included in the Streamlined Energy and Carbon Reporting section starting on page 9.

Strategic report (continued)

Financial performance

A summary of the Group's financial performance for the year ended 31 March 2024 is below. The comparatives are shown for the year ended 31 March 2023.

	Year to 31 March 2024 £'m	Year to 31 March 2023 £'m
Turnover	**100.1**	99.4
Gross profit	**17.3**	12.5
Gross margin %	**17.3%**	12.6%
Other operating income	**3.2**	4.4
Overheads	**(24.4)**	(21.3)
Underlying operating loss	**(3.9)**	(4.4)
Exceptional costs	-	(0.4)
Reported operating loss	**(3.9)**	(4.8)

Reported operating loss was £3.9m in the year (2023: loss of £4.8m), including recognition of exceptional costs of £nil (2023: £0.4m). Prior to these items, the underlying operating loss was £3.9m (2023: operating loss £4.4m). Gross margin has increased to 17.3% (2023: 12.6%). The business reported a strong level of revenue of £100.1m (2023: £99.4m), driven by deliveries to UK Defence and commercial customers. These products were delivered at a higher margin, reflecting the delivery of energy efficiency initiatives and the capital investment programmes focused on replacement of old and unreliable equipment. The operating loss continues to be mitigated by other operating income of £3.2m (2023: £4.4m), driven by grant-funded projects. Recognising the significant headwinds faced by the Group during the year, the Directors regard the overall financial performance in the year as satisfactory.

Underlying cashflow in the period was an inflow of £24.7m, driven by net working capital movements and financing costs. The Group incurred capital expenditure of £107.2m in the period, including spend on the recapitalisation of defence-critical assets. Equity of £123.4m was provided by the Ministry of Defence to facilitate the capital expenditure. The working capital facility provided by the Ministry of Defence has a limit of £15.0m, £nil of which was drawn as at 31 March 2024.

Going concern

The Directors have assessed the going concern status of the Group by reference to a number of factors. In particular, the Directors have considered:

- The order book for the next two years;
- That the Group has a strong competitive position and unique manufacturing capabilities in UK Defence;
- That the Group has a customer base drawn from a range of end-user markets, that the Group has a track record of retaining key staff and has no significant pending litigation or fines;
- That the revolving credit facility provided by the Ministry of Defence on 19 August 2021 with a limit of £15.0m has an expiry date of 31 December 2025; and
- The potential impact of the Russia-Ukraine conflict, the increased rate of inflation and energy and its impact on elements of the Group's cost base.

In undertaking their assessment, the Directors have prepared financial projections for a period of at least 12 months from the date of the approval of these financial statements. The current economic conditions have introduced additional uncertainty into the Directors' assessment, such that potential future outcomes are more difficult to reliably estimate. The Directors have therefore considered a number of sensitivities to their projections to quantify potential downside risks to future financial performance including:

- Reduction in order intake from commercial markets;
- Impact of major machinery breakdown on activity levels for UK Defence and commercial customers; and
- Impact of cost base inflation and further escalation of energy costs.

The Directors have also identified mitigating actions to partially offset these downside risks.

On this basis, the Directors have concluded that the Group does have sufficient financial resources to meet its obligations as they fall due for the next 12 months. As such, the going concern basis is determined to be appropriate for the preparation of the financial statements for the year ended 31 March 2024.

Key performance indicators (KPI's)

The Directors monitor a number of financial and non-financial KPI's in judging the Group's performance.

The financial KPI's include gross margin %, operating margin %, sales per employee and stock turnover.

	Year to 31 March 2024	**Year to 31 March 2023**	**Measure**
Gross margin %	**17.3%**	12.6%	Gross profit/turnover
Operating profit margin %	**-3.9%**	-4.8%	Operating profit/turnover
Sales per employee	**£156,000**	£163,000	Turnover/average no. of employees
Stock turnover (x times)	**3.8x**	3.4x	Turnover/stock and work in progress

Strategic report (continued)

Non-financial KPI's include on-time delivery, defective rates, staff utilisation, attrition and diversity, energy consumption and environmental impact measurements.

The Directors place great emphasis on the non-financial KPI's that relate to health and safety including accident rates, reportable incidents, lost production time and hazard spotting.

Streamlined Energy and Carbon Reporting (SECR)

Introduction
This Energy and Carbon report is disclosed by the Group to provide an overview of its energy consumption and carbon emissions and the mechanisms put in place to manage and mitigate the impact thereof. The Group has voluntarily reported the previous year's figures for energy use and carbon emissions. The Group consists of the Company and all subsidiaries as disclosed in note 11.

Reporting boundaries

Operational control
Sheffield Forgemasters International Limited ("SFIL") is a legal entity and parent company for the entities listed in note 11 of the financial statements. SFIL has one site in Sheffield, UK, covering approximately 87 acres.

Natural gas and electricity are used in secondary steel production and forging, foundry and machining processes as well as in transportation, maintenance and administration functions.

Baseline and reporting periods
This reporting period is for the year ended 31 March 2024 ("FY24"). The reporting comparator is the year ended 31 March 2023 ("FY23").

Methodologies used
Figures reported for FY24 and FY23 are based upon actual data captured from energy supplier invoices and from mileage data for transport across site.

Emissions factors
These are calculated by using the UK Government Greenhouse Gas Conversion Factors for Company reporting. A single set of factors are applied to the reporting period.

Energy use

Measure	**Units**	**FY24**	**FY23**
Electricity	kWh	33,680,303	34,829,220
Gas	kWh	104,496,244	97,014,752
Transport	kWh	815,977	844,024
Total UK energy use	kWh	**138,992,524**	132,687,996

Carbon emissions

Measure	**Units**	**FY24**	**FY23**
Electricity	tCo2	7,152	7,395
Gas	tCo2	19,140	17,769
Transport	tCo2	207	213
Total UK carbon emissions	tCo2	**26,499**	25,377

Strategic report (continued)

Intensity ratios

The Directors monitor the following emission intensity ratios:

	Units	FY24	FY23
Turnover	£'000	**100,102**	99,428
Emissions per £ of turnover	tCo2/£'000	**0.26**	0.26
Average no. of employees	Number	**641**	608
Emissions per employee	tCo2/Number	**41.3**	41.7
Steel tonnage	Tonne	**10,980**	11,293
Emissions per tonne of steel	tCo2/tonne	**2.4**	2.2

The Group is an energy intensive user of gas and electricity in its manufacturing operations. Energy usage has increased by 4.8% in the period with total emissions increasing by 4.4%. The metrics above show that emissions per tonne of steel have increased by 9%. Our efforts to be more energy-efficient have been offset by the lower tonnage, which makes the steel making process less efficient.

To drive improvements in energy consumption and carbon emissions, a number of initiatives have been used in the period, and will continue to be used in the future, including:

- Continued introduction of LED lighting;
- Improved burner control in the Forge, including routine burner maintenance and combustion testing;
- Continued furnace maintenance including refractory lining, furnace sealing and improved combustion;
- Awareness and training in energy efficiency; and
- Consideration of more energy-efficient equipment in capital expenditure.

Future developments

The Directors shall focus the resources of the Group on the Strategic Objectives detailed on page 5.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Directors of Sheffield Forgemasters International Limited consider, both individually and together, that they have acted in a manner, in good faith, that would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 March 2024.

The Directors have developed a 10-year Strategic Plan for the Group, detailing their vision to transform the capabilities of the business over that period. In addition, the Directors have also prepared a detailed five-year Business Plan identifying the action plans and milestones required to deliver the first phase of the vision in the period to 2029. This is set out on page 5.

The Directors believe the Business Plan provides a clear roadmap for the future development of the Group for the benefit of the shareholder, employees, customers, suppliers, taxpayers, the local community and the environment.

In developing the Business Plan, the Directors considered the needs and perspectives of a range of stakeholders. The Directors have actively engaged with these stakeholders, applying the information obtained to drive decisions on the execution of its strategy and Business Plans. The principal stakeholders engaged during the year, and the methods used, were as follows:

Shareholder
The Directors have continued to engage extensively with our shareholder, supported by a DNO-UKGI shareholder team. This engagement has focused on defining the Strategic Objectives of the Group and Board's medium and long-term plans to deliver the desired outcomes. The relationship with our shareholder is governed by a Framework Document which sets out, amongst other things, the basis on which the performance of the Board shall be monitored.

Employees
Our employees are fundamental to the performance of the business and we strive to be a responsible employer in safeguarding the health, safety and wellbeing of our employees. The Board places significant emphasis on the importance of regular employee communication and senior management has used the following methods to engage employees during the year:

- Bi-annual employee presentations from the CEO and senior executives on business performance;
- Quarterly engagement with employee representatives;
- A quarterly employee newsletter;
- Periodic health and safety stand-down events and monthly flow down of Health and Safety Director feedback to operational employees;
- Monthly Management Presentation, delivered to all employees; and
- Regular engagement with recognised trade unions.

These communication methods provide a two-way flow of information between senior management and employees, providing valuable insight into the views and interests of employees. The Board has had regard to this information as part of making decisions in relation to pay levels for specific employee groups, Company-wide pay reviews, updating of terms and conditions, provision of training and health and safety investments.

Strategic report (continued)

The Company undertook an employee survey during the year along with all employees receiving an annual performance appraisal, including setting objectives and individual development plans for the year ahead. To encourage more diversity and improve wellbeing, flexible working has been introduced to all our employees.

Customers
The Company engages extensively with its customers to foster long-term relationships of value to both parties.

Rolls-Royce Holdings plc, BAE Systems plc and AWE plc are the largest customers of the Group. As such, the Board seeks to foster positive and open relationships with these customers and recognises the importance of the governance regime they have adopted in monitoring the performance and development of the Group. This includes attending quarterly meetings with senior representatives of these customers and reviewing operational information on a regular basis.

The Company engages with all customers in a structured manner to gather feedback on our performance in meeting their requirements on-time, on-cost and on-quality. These relationships are led by our Customer Programmes Director and are supported by the Board as appropriate. The Board has had regard to this information in making decisions in relation to capital investment, workforce size and distribution, production planning and continuous improvement initiatives.

Suppliers
The Company aims to act responsibly and fairly to our suppliers, fostering long-term relationships that support delivery of the Business Plan, by monitoring fair payment performance. The Board uses this information to promote best practice and act responsibly to meet supplier payment obligations.

The Board has emphasised the importance of all on-site suppliers of services adhering to our health and safety policies, including a detailed review of compliance performance. This has supported decision-making with regard to health and safety training and investment.

Environment and local community
The Business Plan takes account of the Company's wider environmental and community responsibilities and we are classified as Band A on Environment compliance. Objectives include:

- Maintaining Band A on Environment compliance;
- Maintaining our strong performance in recycling materials used in our manufacturing processes;
- Fostering positive working relationships with environmental regulators;
- Driving a reduction in energy consumption by improving energy efficiency in key processes;
- Operating a Charitable Donations Policy to support local charities and community programmes; and
- Identifying opportunities to advance engineering and STEM subject education.

The Directors have engaged with local community and residents groups to communicate how our capital investment plans may impact them. The information obtained from these engagements is used by management to consider design aspects of the investment programme.

The Board of Directors uses the information obtained from stakeholder engagement to support delivery of the Business Plan and to ensure that management operate the business in a responsible manner, meeting the high standards of business conduct and governance expected by our stakeholders. The objective is to protect, nurture and grow the reputation of the Group as a responsible enterprise in our local community and chosen markets.

In constructing and executing the Business Plan, the Board have considered the likely consequence of decisions in the long-term, to promote the long-term prospects and viability of the business.

Sheffield Forgemasters International Limited

Strategic report (continued)

Principal risks

The principal risks identified by the Board are described below:

Macro risks

Risk and Impact	Status and mitigations
1. Economic and market conditions	
Economic Conditions The Group could be affected by national and international economic factors outside of its control, including an economic slowdown, changes in the fiscal and monetary policies of Government, exchange rate fluctuations, commodity price fluctuations, inflation, interest rate increases and banking sector conditions.	The Directors operate strict procurement policies that emphasise value for money requirements, adopt hedging strategies for key inputs where appropriate and adjust commercial pricing to recover increasing costs as far as possible in competitive markets.
Geopolitical Risks The Group could be affected by geopolitical factors outside of its control, including election results, changes in Government policy, global trade disputes, military conflicts and terrorist activities. The Directors have noted continued geopolitical instability with the potential to cause fluctuations in oil prices and the cost of energy.	The Board decided to continue with the cessation of all supply of product to Russian customers for the near future, having resized the work rolls business in 2022 to accommodate for this. The Directors manage the forward cost of energy by promoting more efficient energy consumption and fixing the price of a proportion of its future requirements.
Market Dynamics The Group serves a number of global markets including Defence, Civil Nuclear, Oil and Gas, Petrochemicals, Power Generation and Steel Processing. These markets exhibit cyclical characteristics which can cause fluctuations and volatility in demand for the Group's products. There is a continued commitment of the UK Government and the current US administration to fund their defence budgets in areas favourable to the Group.	The Group seeks to mitigate cyclical volatility by maintaining a balanced portfolio of customers and projects across a spread of international markets and geographies. The Group remains actively engaged with customers in impacted markets, has proactively sought new customers in existing markets and seeks to diversify its exposure to cyclical markets by developing our presence in new emerging Clean Energy markets, including Civil Nuclear and Off-Shore Wind.
2. Physical Risks	
Health and Safety Risks The nature of the operations of the Group carries a high degree of health and safety risk which is mitigated by control procedures.	The Directors emphasise to all employees the critical importance of consistently adhering to the Group's safety standards and procedures, and fostering a culture of continuous improvement based upon an open and transparent approach to recording and communicating safety incidents, aiming to identify and mitigate root causes. The Group maintains close working relationships with its regulators and works in partnership with a number of customer organisations to share best practice and develop the capability of its dedicated health and safety staff and workforce.

Fire Risk The operations of the Group involve handling and manipulating ultra-hot metals, including molten steel. The high temperature environment carries a significant fire risk.	The Directors mitigate this risk by adopting strict fire safety standards, emphasising training for staff in this area and by procuring specialist support from external fire safety experts.
Flood Risk The manufacturing facilities of the Group are located close to the River Don in Sheffield and are subject to flood risk, with flood events in 2007, 2019 and 2022. Notwithstanding the flood resiliency investment and protocols, and the insured position of the Group, any such future flooding event could lead to significant cash outflows.	Since 2007, additional flood measures have been implemented and have held. Further floods were caused by secondary flooding from drainage systems/culverts. Potential flooding events in 2023 and 2024 occurred but no flooding occurred due to the additional flood resiliency measures. The Directors continue to invest in flood resiliency measures, and to improve flood protocols through continued learnings from each event that raises water levels both on the river and on site. Flood insurance is also held.
Environmental risk The Group utilises hazardous substances in its operations which pose environmental risks.	The Directors have adopted environmental best practice across the Group, including implementation of policies, procedures and practices that emphasises the safe handling of harmful substances, working in partnership with the relevant regulatory authorities.
Plant reliability The Group is dependent on the reliable operation of its plant and machinery to operate efficiently. The breakdown of certain items of machinery could significantly impact the ability of the Group to deliver finished products to customers. Significant capital expenditure was delivered in the period to mitigate risks associated with potential points of critical failure. However, the business is noting an increased incidence of machinery breakdown.	The Group adopts a focused, preventative repairs and maintenance programme, prioritising items of critical importance to manufacturing capacity. The capital investment plans of the Group will address the reliability of defence-critical assets over time. To mitigate reliability risks, the Directors have prioritised investment over the short-term to replace old, vulnerable equipment to support operational delivery of customer commitments.
3. Business Risks	
Customer Dependency The Group is currently dependent on a small number of customers. During the period, the 10 largest customers of the Group accounted for 83% of total turnover.	The Directors are seeking to identify and enter new markets and geographies to exploit the world-leading engineering capability of the Group.
Intellectual Property The Group harnesses intellectual property and manufacturing excellence built up over decades.	To preserve this technological advantage, the Directors continue to invest in the research and development activities of the Group, seeking to exploit non-manufacturing opportunities to commercialise know-how and controlled knowledge transfer.
Reputational Risk The Group has established a deserved reputation for safely delivering ultra-heavy forgings and castings of the highest quality to its customer base. The loss of this reputation could inhibit the ability of the Group to win new business.	To preserve its reputation, the Group maintains strict policies in relation to quality assurance, project management, health and safety, security and legal and regulatory compliance. Extensive physical security and cyber security rules are in place, along with all applicable export control regulations.

	Such policies also seek to ensure that the Group and its business partners fully comply with all applicable anti-bribery, corruption and tax evasion legislation. The Group is also mindful of its obligations under the Modern Slavery Act 2015 and has taken various steps to seek to ensure compliance.
Cyber security breach and loss of data The activities of hostile threat actors internationally have the potential to disrupt access to key systems and data essential for business operations.	The Group has adopted Cyber Security and Information Security policies and procedures, with investment in information security, to protect the systems and data of the Group and prevent unauthorised access. The business the accreditations for Cyber Essentials Plus and National Institute of Standards and Technology. The risk of data loss is mitigated by regular back-up activities.
Dependency on key staff and staff retention The nature of our work requires high levels of skill and experience that makes the Group vulnerable to the loss of key staff.	The Group operates incentive schemes that cover all employees and maintains HR policies that emphasise opportunities for workforce training, development and promotion and that continually seek to introduce new talent to the business, particularly at the apprentice level, where we have one of the largest intakes in the Yorkshire region.
Supply chain disruption The Group is dependent on supplies of scrap steel, alloys and other consumables to manufacture its products. Geo-political conditions can impact the availability of these products to the UK market.	The Group has built and maintained stocks of essential inputs and spares and works closely with the supply chain to ensure continuity of delivery.
Energy costs and security Energy costs are a material element in the cost base of the Group. Fluctuations in electricity and gas usage and prices could have a material impact on the profitability of the Group.	The Group has established policies to restrict inefficient usage of energy and to fix the price of a proportion of its forward energy requirements. The Group also monitors and adjusts sales prices where appropriate to respond to changing costs.
Raw material costs Fluctuations in steel prices could have a material impact on the profitability of the Group.	The Group engages in secondary steel production, to ensure efficient supply of steel to its forging and casting operations, and holds appropriate stocks of scrap steel to support this process.
4. Financial Risks	
Credit risk Credit risk is the risk of financial loss if a customer fails to meet its contractual obligations to the Group.	This risk is mitigated by pre-contract screening of customers, establishment of credit limits, strict credit control, regular monitoring of debtor ageing and credit insurance where available.
Future funding requirements and liquidity risk The Group is dependent on lending facilities for its ongoing liquidity and its ability to meet its financial obligations as they fall due.	The change of ownership and the provision of new lending facilities from the Ministry of Defence to 31 December 2025 has significantly mitigated liquidity risk.
Exchange rate risk Exchange rate risk is the risk that fluctuations in exchange rates could adversely impact the	The Group's policy is to manage its exposure to exchange rate fluctuations by holding

financial performance of the Group or its ability to meet its obligations.	proportionate amounts of foreign currencies and by forward buying against known exposures.
Interest rate risk Interest rate risk is the risk that increases in market rates of interest may increase the cost of debt.	As the loan facilities of the Group are limited, the Directors do not view this as a material risk, and do not consider that interest rate hedging protection is appropriate.
Taxation risk Any change in SFIL's or its subsidiaries' tax status or changes in tax legislation could adversely impact the financial performance of the Group.	The Group monitors the tax landscape and works with professional tax advisors to ensure any changes are understood and complied with.

This report has been agreed by the Board of Directors and is signed on its behalf by:

Gary Nutter
Chief Executive Officer
24 October 2024

Sheffield Forgemasters International Limited

Directors' report

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

Principal activity

The principal activity of the Company is to act as the holding company of the Group's trading subsidiaries. The principal activities of the Group are the manufacture and sale of forged and cast components and steel ingots that are mainly supplied to Defence, Offshore, Power Generation, Steel Processing and Petrochemical industries together with testing, research and development and project management services.

Directors

The Directors of the Company during the year and up to the date of signing the financial statements were:

Sir Tim Fraser, KCB – Chair and Non-Executive Director
David Bond – Chief Executive Officer (resigned 18 March 2024)
Gary Nutter – Chief Executive Officer (appointed 18 March 2024)
Gareth Barker – Chief Operating Officer
Stephen Hammell – Chief Financial Officer (resigned 30 April 2023)
Amy Grey – Chief Financial Officer (appointed 27 July 2023)

Norman Bone – Non-Executive Director (appointed 1 January 2024)
Simon Patrick Butcher – Non-Executive Director
Julie Colgan – Non-Executive Director (appointed 24 May 2023)
Lorna Gratton – Non-Executive Director (resigned 24 May 2023)
Andrew McNaughton – Non-Executive Director
Janice Munday, CBE – Non-Executive Director (resigned 29 December 2023)

Directors' interests

Andrew McNaughton is a Director of AWE plc, a significant customer of the Group.

Result and dividends

The loss for the period, before taxation, was £3.7m (2023: £5.0m loss). The Directors have not declared the payment of a dividend for the year ended 31 March 2024 (2023: £nil).

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, taking into account the aptitudes and abilities of the individual concerned. Where employees become disabled, the Group makes every effort to continue their employment.

It is the policy of the Group that training, career development and promotion of disabled employees should, as far as possible, be identical to that of other employees.

Engagement with employees, customers and suppliers

The approach of the Group to engaging with employees, customers and suppliers is detailed in the Strategic Report on pages 11 and 12.

The Group involves employees in matters relating to their employment and working conditions, endeavouring to maintain a sense of purpose aligned with the Group's strategy and objectives. The Directors regularly review the effectiveness of employee communications and improvements are implemented as required.

Training and development is an integral part of the Group's culture and every effort is made to ensure employee involvement in this critical activity, with particular emphasis on health and safety improvements and job-specific development.

Qualifying third party indemnity provisions

Each of the present Directors of the Company has the benefit of a qualifying third-party indemnity provision as at the date of this report.

Corporate Governance

The Corporate Governance arrangements for the Group are detailed in the Governance Statement on pages 19 to 22.

Disclosure of information to auditor

The Directors of the Company who held office at the date of approval of this Directors' report each confirm that:

- So far as each Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- Each Director has 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 auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the Auditor will be deemed to be reappointed and Armstrong Watson Audit Limited will therefore continue in office.

This report has been agreed by the Board of Directors and is signed on its behalf by:

Amy Grey
Chief Financial Officer
24 October 2024

Governance statement

Background

Corporate governance is concerned with the processes used by a company to make decisions and focuses on:

- The rights and responsibilities of the Board, Executive Directors, Non-Executive Directors and the auditors;
- The measures taken by the Board to promote integrity and honesty; and
- Proper standards of transparency and disclosure.

There is no compulsory regime of corporate governance to which the Directors of a UK private company must adhere over and above the general duties imposed on such Directors under English Law. However, the Secretary of State for Defence and the Directors recognise the importance of maintaining high standards of corporate governance and have established a number of mechanisms to achieve this under a Framework Document.

Board composition and responsibilities

At the date of this Annual Report, the Board comprises eight Directors, three of whom are Executive Directors and five of whom are Non-Executive Directors, including a Shareholder Non-Executive Director. The composition reflects a blend of complementary skills, experience and backgrounds.

The Board meets regularly and is responsible for strategy, health and safety, operational and financial performance, risk management and the framework of internal controls. To enable the Board to discharge its duties, all Directors receive relevant information in a timely manner. Board briefing documents are distributed to all Directors in advance of all Board meetings.

Strategic objectives

The Secretary of State for Defence has instructed the Board to direct the resources of the Group to delivery of the Strategic Objectives on page 5.

The Board has developed a 10-year Strategic Plan and a five-year Business Plan in order to prioritise the deployment of resources, including financial, people and operational resources, to deliver against these objectives, as detailed on page 5.

Risk assessment

The Directors are responsible for assessing the principal risks the Group faces in delivering these objectives using a formal and structured process to identify and measure such risks.

Risks are potential future events or occurrences that could cause damage or harm to the business, its people or its reputation. Risks are assessed on the basis of likelihood of occurrence and severity of impact and documented in a Group Risk Register. Significant risks are subject to further analysis and may have their own risk register. In assessing risk, the Group is alert to the potential impact of existing risks and newly emerging risks.

The assessment of risk is delegated to the CEO and is a continuous process that is subject to review on a quarterly basis by the CEO, CFO and COO, drawing on specialist expertise within the Group as appropriate and including the development and execution of mitigating strategies and actions. This work is subject to oversight by the Audit and Risk Assurance Committee (see pages 20 to 21).

Governance statement (continued)

The principal risks of the Group, and related mitigating actions, are detailed in the Strategic Report on pages 13 to 16.

System of internal control

To effectively mitigate and manage identified risks, the Group operates a system of internal control.

Internal controls are the body of policies, procedures and processes the Group follows to enforce levels of performance and to reduce risk. The key elements of internal control are:

- **Independent oversight** of the activities of the Executive Directors by the Non-Executive Directors (see below) and by external parties, including the auditors and regulators;
- **Executive oversight** of the activities of senior management by establishment of annual budgets and targets, measurement of performance against budget, review of performance against Business Plan and strategic priorities and compliance with specific operational policies;
- **Delegated authorities** to monitor and control entry into sales commitments and purchase contracts, including capital expenditure and operational expenditure, with the most material items reserved to the Board and Executive Directors;
- **Segregation of duties** so that processes are not dependent on the actions of one person, involving separation of the custody, review, approval and recording of processes and transactions; and
- **Specific controls** in each of the key functional disciplines of the Group, including Technical Risk Authority, Manufacturing Standards and Regulations, Health and Safety Policies, Environmental Policies, Standardisation of Contractual Terms, HR Policies, Anti-Corruption Policies, Financial Risk Management, IT Security, Information Security, Physical Security, Procurement Policies and Business Continuity Plan. Responsibility for specific controls is shared by the Executive Directors with departmental heads as appropriate.

The system of internal control is subject to regular review by the auditor and the Board. The auditors prepare a summary of control weaknesses identified during the course of each audit on an annual basis and report their findings to the Audit and Risk Assurance Committee (see below).

The current system of internal control has been in place for the period covered by these financial statements and for the period up to the date of approval of this Annual Report.

Board oversight

The Board has established Audit and Risk Assurance, Remuneration, Nomination and Recapitalisation Committees with formally delegated duties and responsibilities to independently oversee the activities of the Executive Directors and senior management team. The terms of reference for each committee are as follows:

Duties of the Committee	Members of the Committee	Frequency
Audit and Risk Assurance Committee ("ARAC")		
The role of the Committee is to support the Board and the Chair of the Board (the "Chair") in reviewing the Company's financial statements and monitoring the Company's corporate governance and business control systems. It will be Chaired by an independent NED with relevant experience and qualification(s).	Simon Patrick Butcher – Chair Julie Colgan Sir Tim Fraser Janice Munday left ARAC in December 2023	At least twice per year

Remuneration Committee		
Has responsibility for reviewing and determining, within agreed terms of reference, the Company's policy on the remuneration of Directors and key employees, including the establishment of staff incentive schemes. No Director may be involved in discussion of their own remuneration.	Norman Bone - Chair, Simon Patrick Butcher, Julie Colgan Sir Tim Fraser Norman Bone joined in January 2024 in replacement of Janice Munday CBE	At least twice per year
Nomination Committee		
The duties of the Nomination Committee are to consider the structure, size and composition of the Board and the senior management team and to make recommendations to the Board regarding appointments and succession planning.	Sir Tim Fraser - Chair, Simon Patrick Butcher, Norman Bone, Andrew McNaughton and Julie Colgan Norman Bone joined in January 2024 in replacement of Janice Munday CBE	At least once per year
Recapitalisation Committee		
The Recapitalisation Committee has the responsibility to consider the scope, cost and schedule of the Recapitalisation Programme and to make recommendations to the Board for entry into substantial capital commitments and contracts.	Andrew McNaughton – Chair Sir Tim Fraser Julie Colgan	At least quarterly

Governance statement (continued)

Integrity and honesty

The Board is responsible for the Group's Code of Conduct which sets out the standards of behaviour expected from all employees. The Board is committed to operating the business with integrity and honesty and maintaining high standards at all times. The Executive Directors are required to uphold the Code of Conduct in all their dealings and set an appropriate tone and example for the rest of the organisation.

The Board adopts a strict stance on the requirement for disclosure of instances of illegal activity and fraud, unethical conduct, unacceptable risk, breaches of policy and wrongdoing. The Executive Directors are responsible for encouraging an open environment of disclosure within the Group.

The Group has a Whistleblowing Policy to provide all current and ex-employees with a safe and confidential route to raise concerns in relation to wrongdoing, with the assurance that their concerns will be taken seriously.

Transparency and disclosure

The Group has a commitment to transparency and disclosure of relevant information to stakeholders. The Directors invest significant time and effort engaging with internal and external stakeholders, including shareholders, employees, customers, suppliers and the local community, to understand their perspectives, views and interests. The Directors make use of this information when making decisions regarding the operation of the Group. Further details of stakeholder engagement are detailed in the Strategic Report on pages 11 and 12.

This report has been agreed by the Board of Directors and is signed on its behalf by:

Gary Nutter
Chief Executive Officer
24 October 2024

Sheffield Forgemasters International Limited

Remuneration and staff report

Directors' remuneration

Remuneration policy for Directors

The remuneration of Directors is determined by the Remuneration Committee, a sub-committee of the Board with delegated duties and responsibilities under agreed terms of reference. Further details regarding the Remuneration Committee are detailed on page 21.

Directors' remuneration for the year ended 31 March 2024

The components of pay and total remuneration of the Directors who served in the year ended 31 March 2024, is as follows:

Director	Role	Salary £'000	Bonus £'000	Expenses and Benefits £'000	E'er pension £'000	2024 Total £'000	2023 Total £'000
C Smith	Chair (Resigned 1 February 2023)	-	-	-	-	-	**117**
T Fraser	Chair (Appointed 1 February 2023)	90	-	-	-	**90**	**15**
D Bond	CEO (Resigned 18 March 2024)	260	127	81	52	**520**	**508**
G Nutter	CEO (Appointed 18 March 2024)	9	-	-	-	**9**	-
S Hammell	CFO (Resigned 30 April 2023)	13	-	-	1	**14**	**169**
A Grey	CFO (Appointed 27 July 2023)	105	23	-	5	**133**	-
G Barker	COO	201	47	1	10	**259**	**240**
J Munday	NED	46	-	-	-	**46**	**61**
N Bone	NED (Appointed 1 January 2024)	7	-	-	-	**7**	-
L Gratton	NED (Resigned 24 May 2023)	-	-	-	-	-	-
J Colgan	NED (Appointed 24 May 2023)	-	-	-	-	-	-
A McNaughton	NED	40	-	-	-	**40**	**40**
S Butcher	NED	30	-	-	-	**30**	**29**
Total		**801**	**197**	**82**	**68**	**1,148**	**1,179**

Notes:

1. Components of remuneration are stated for the year ended 31 March 2024, with total remuneration for this year stated in the "2024 Total" column. Comparatives presented in the "2023 Total" column are for the year ended 31 March 2023.
2. All of the Directors served for 12 months in this period except for D Bond (resigned 18 March 2024), G Nutter (appointed 18 March 2024), S Hammell (resigned 30 April 2023), A Grey (appointed 27 July 2023), N Bone (appointed 1 January 2024), L Gratton (resigned 24 May 2023) and J Colgan (appointed 24 May 2023).
3. Bonus refers to payments made under short-term incentive schemes approved by the remuneration committee in line with the scheme terms and the discretion of the committee in reviewing the Company's performance.
4. Expenses refer to expense allowances, subject to deduction of employment taxes, that reimbursed D Bond for car and accommodation costs.
5. Benefits refer to non-cash remuneration, conferring financial benefit on G Barker (£1,000).
6. E'er pension refers to employer pension contributions paid by the Group.
7. NED means Non-Executive Director.
8. NEDs are not eligible for bonus, benefits or employer pension contributions.
9. D Bond, who is a secondee from BAE Systems plc, was not an employee of the Group but was a registered Director of the Group under the secondment arrangements; the figures in this table disclose the amount paid to D Bond by BAE Systems plc which is re-charged in full to the Group.
10. J Colgan is the shareholder appointed NED and is employed by UK Government Investments; the Group was not re-charged by UK Government Investments for her services. This role was previously performed by L Gratton. L Gratton resigned from her role on 24 May 2023 and was replaced by J Colgan on the same date.

Remuneration and staff report (continued)

Fair pay disclosure

The following table discloses the range of pay for all employees in the year ended 31 March 2024, and the ratio of pay to the highest paid Director:

	31 March 2024 £'000	31 March 2023 £'000
Highest paid Director	520	508
Average employee remuneration	42	42
75th percentile	48	49
50th percentile	39	40
25th percentile	32	32
% change in highest paid Director	2%	39%
% change in average employee remuneration	0%	50%
Ratio of highest paid Director to:		
75th percentile	10.6x	10.4x
50th percentile	13.0x	12.7x
25th percentile	15.9x	15.9x

In the year to 31 March 2023, the % change in highest paid Director and average employee remuneration data, is in comparison to the eight-month period ending 31 March 2022. Therefore, it is not directly comparable to the data for year to 31 March 2024, which reflects an annual change.

Staff report

The following table discloses information in relation to the composition of the staff of the Group in the year ended 31 March 2024:

	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Number of Directors	8	9
Number of employees	633	599
Total	641	608
Number of male Directors	6	7
Number of male employees	575	555
Total males	581	562
Number of female Directors	2	2
Number of female employees	58	44
Total females	60	46
Male %	90.6%	92.6%
Female %	9.4%	7.4%
Total employment cost (£'000)	32,100	28,448
Sickness and absence rate	12.7%	11.7%
Employee turnover rate	8.4%	12.3%
Off-payroll workers	17	17

Further disclosure of employment costs is included in note 7 of the accounts on page 52.

Remuneration and staff report (continued)

Employee engagement and employment policies

Our employees are fundamental to the performance of the business and we aim to be a responsible employer in safeguarding the health, safety and wellbeing of our employees. The Board places significant emphasis on:

- Appropriate organisational alignment to achieve all of our strategic objectives;
- Making our ability to attract and retain talented individuals a differentiating business strength;
- Understanding the skills and capabilities needed now and into the future, and developing effective frameworks to secure the required levels of Suitably Qualified and Experienced Personnel (SQEP);
- The development of the reward strategy, which will continue with SFIL establishing a balanced remuneration and reward package, inclusive of reward and incentive schemes and pension contributions; and
- The overall employee experience, which will remain at the heart and centre of our people and culture strategy. We will address the fabric of SFIL as an organisation, the way we treat one another and the way we interact with our surrounding community.

Further information on employee engagement is included in the Strategic Report on page 11.

The Board recognises that the employee proposition of the Group requires improvement to attract, retain and develop the best available talent. We are determined to broaden our employee diversity and grasp the cultural, teamwork and business performance opportunities offered by a diverse and inclusive workforce. We will encourage opportunities for all to thrive, regardless of gender, ethnicity, physical disability, age and other pertinent differentiators. We will drive to reflect our local community and at least match our manufacturing industry peers, ensuring our recruitment practices provide for such diversity and inclusivity. We will proactively engage local schools and colleges in promotion of STEM skills and capabilities, and position our business as a pre-eminent manufacturing employer of choice to all.

Executing improvement of our employee facilities is essential – our working environment and site is a key factor in our overall employee value proposition. During the year we have refurbished outdated changing facilities, re-established a staff canteen, and incorporated more green spaces across site to promote wellbeing.

We will engage and seek feedback from the workforce through various working groups, forums and annual surveys. This will ensure the leadership team is held accountable for delivering a positive, inclusive employee experience.

Diversity and inclusion

The Board gives due regard to the aims of the Equality Act 2010:

- Eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act;
- Advance the equality of opportunity between people who share a protected characteristic and people who do not share it; and
- Foster good relations between people who share a protected characteristic and people who do not share it.

The Board has adopted a number of HR policies to promote these aims by setting minimum standards of employee behaviour, including a policy on the employment of disabled persons as detailed in the Directors Report on page 17.

Remuneration and staff report (continued)

The Board is committed to improving diversity and inclusion across the business. We are actively seeking to increase all aspects of diversity but recognise there is much work to do.

The Board recognises that our workforce lacks diversity in most characteristics and does not reflect our manufacturing peers or local community. There is limited diversity data held - the only robust data is that of gender (9% female (FY23: 7%), with 1% (FY23: 0%) in our shop-floor workforce). Our strategic aim is to encourage a diverse and high-performing workforce. We will deliver this by attracting, investing in and retaining a diversity of talent, with the right skills and behaviours to generate an inclusive workplace.

The Group historically has not invested sufficiently in broadening its employment and recruitment proposition, including the modernisation of facilities for all. The steel manufacturing sector reports a female representation rate of 10% and the broader engineering sector reports 20%. The female representation has increased from 7% to 9% during the year.

In order to meet our strategic objective:

- We will accelerate our Diversity, Equity and Inclusion action plan;
- We will renew our facilities to ensure we have facilities for all;
- We will do more to encourage diversity in manufacturing and maintenance operations by increasing our community strategy and seeking to attract a diverse apprentice intake; and
- We will review our attraction and selection criteria and ensure advertising is driven to build suitable pools of diverse candidates.

The Directors target delivery of these action plans and measure female representation rate monthly to track progress.

This report has been agreed by the Board of Directors and is signed on its behalf by:

Gary Nutter
Chief Executive Officer
24 October 2024

Sheffield Forgemasters International Limited

Statement of Accountable Person's responsibilities

The Secretary of State for Defence has directed Sheffield Forgemasters International Limited to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The financial statements are to be prepared on an accruals basis and must give a true and fair view of the state of affairs of the Group and of its income and expenditure, balance sheet and cash flows for the year.

In preparing the financial statements, the Accountable Person is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the accounts direction issued by the Secretary of State for Defence, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- Prepare the financial statements on the going concern basis; and
- Confirm that the Annual Report and financial statements as a whole is fair, balanced and understandable and take personal responsibility for the Annual Report and financial statements and the judgements required for determining that it is fair, balanced and understandable.

The Secretary of State for Defence has appointed the Chief Executive Officer as Accountable Person of Sheffield Forgemasters International Limited. The responsibilities of an Accountable Person, including responsibility for the propriety and regularity of the public finances for which the Accountable Person is answerable, for keeping proper records and for safeguarding the assets of Sheffield Forgemasters International Limited, are set out in *Managing Public Money* published by HM Treasury.

As the Accountable Person, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors of Sheffield Forgemasters International Limited are aware of that information. So far as I am aware, there is no relevant audit information of which the auditors are unaware.

Gary Nutter
Chief Executive Officer
24 October 2024

Sheffield Forgemasters International Limited

Statement of Directors' responsibilities in respect of the Annual Report, Strategic report, the Directors' report and the financial statements

The Directors are responsible for preparing the Annual Report, 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 they have elected to prepare the Group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and 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;
- Assess the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting, unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

This statement has been agreed by the Board of Directors and is signed on its behalf by:

AGrey

Amy Grey
Chief Financial Officer
24 October 2024

Independent auditor's report to the members of Sheffield Forgemasters International Limited

Opinion

We have audited the financial statements of Sheffield Forgemasters International Limited (the 'parent Company') and its subsidiary undertakings (the 'Group') for the year ended 31 March 2024, which comprise the Consolidated profit & loss account and other comprehensive income, the Consolidated balance sheet, the parent Company balance sheet, the Consolidated statement of changes in equity, the parent Company statement of changes in equity, the Consolidated cash flow statement and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the parent Company and the Group's affairs as at 31 March 2024 and of its loss for the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Auditors' 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 United Kingdom, including the Financial Reporting Council'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 parent Company or Group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our Auditor's Report thereon. 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.

Independent auditor's report to the members of Sheffield Forgemasters International Limited (continued)

Other Information (continued)

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinion 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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the parent Company and the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, 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.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement on page 28, 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 parent Company and Group'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 parent Company or Group or to cease operations, or have no realistic alternative but to do so.

Independent auditor's report to the members of Sheffield Forgemasters International Limited (continued)

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 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.

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.

Our approach to identifying and assessing the risks of material misstatement in respect of irregularities, including fraud and non compliance with laws and regulations, was as follows:

- we identified the laws and regulations applicable to the company through discussions with Directors and other management, and from our commercial knowledge and experience of the industry;
- we assessed the extent of compliance with the laws and regulations identified above through making enquiries of management; and
- identified laws and regulations were communicated within the audit team regularly and the team remained alert to instances of non compliance throughout the audit.

We assessed the susceptibility of the entity's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:

- making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
- considering the internal controls in place to mitigate risks of fraud and non compliance with laws and regulations.

To address the risk of fraud through management bias and override of controls, we:

- performed analytical procedures to identify any unusual or unexpected relationships;
- tested journal entries to identify unusual transactions; and
- assessed whether judgements and assumptions made in determining the accounting estimates were indicative of potential bias.

In response to the risk of irregularities and non compliance with laws and regulations, we designed procedures which included, but were not limited to:

- agreeing financial statement disclosures to underlying supporting documentation; and
- enquiring of management as to actual and potential litigation and claims.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Independent auditor's report to the members of Sheffield Forgemasters International Limited (continued)

Use of our report

This report is made solely to the Company's members 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 Auditors' 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 for our audit work, for this report, or for the opinions we have formed.

Matthew Osbourne (Oct 24, 2024 15:17 GMT+1)

Matthew Osbourne (Senior Statutory Auditor)
for and on behalf of
Armstrong Watson Audit Limited
Statutory Auditor
Leeds
24 October 2024

Sheffield Forgemasters International Limited

Consolidated profit and loss account and other comprehensive income for the year ended 31 March 2024

	Note	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Turnover	4	**100,102**	99,428
Cost of sales		**(82,832)**	(86,887)
Gross profit		**17,270**	12,541
Distribution costs		**(2,342)**	(2,341)
Administrative expenses		**(22,084)**	(19,339)
Other operating income	6	**3,217**	4,355
Operating loss		**(3,939)**	(4,784)
Interest receivable and similar income	8	**488**	10
Interest payable and similar expenses	8	**(266)**	(253)
Loss before taxation		**(3,717)**	(5,027)
Tax charge	9	**(381)**	(369)
Loss for the financial year and total comprehensive loss		**(4,098)**	(5,396)

All figures above relate to the principal activities of the Group and derive from continuing operations.

The Group has no income or losses for the current and previous financial year other than as stated in the Consolidated profit and loss account and other comprehensive income, therefore no separate statement of comprehensive income is presented.

Sheffield Forgemasters International Limited

Consolidated balance sheet
as at 31 March 2024

	Note	2024 £'000	2023 £'000
Fixed assets			
Tangible assets	10	**204,195**	103,056
Total fixed assets		**204,195**	103,056
Current assets			
Inventories	12	**26,337**	29,536
Debtors	13	**53,467**	30,619
Cash at bank and in hand		**69,157**	44,494
Total current assets		**148,961**	104,649
Creditors: amounts falling due within one year	15	**(99,513)**	(76,352)
Net current assets		**49,448**	28,297
Total assets less current liabilities		**253,643**	131,353
Creditors: amounts falling due after more than one year	16	**(30,202)**	(26,684)
Provisions for other liabilities	17	**(504)**	(1,034)
Net assets		**222,937**	103,635
Capital and reserves			
Called-up share capital	19	**235**	223
Share premium account	19	**235,999**	112,611
Retained earnings	19	**(13,297)**	(9,199)
Total equity		**222,937**	103,635

The notes on pages 39 to 69 are an integral part of these financial statements.

The financial statements on pages 33 to 69 were approved by the Board of Directors on 24 October 2024 and signed on their behalf by:

Amy Grey
Chief Financial Officer

Sheffield Forgemasters International Limited

Company balance sheet
as at 31 March 2024

	Note	2024 £'000	2023 £'000
Fixed assets			
Investments	11	**242,908**	119,508
Total fixed assets		**242,908**	119,508
Current assets			
Debtors	13	**56**	187
Cash at bank and in hand		**-**	-
Total current assets		**56**	187
Creditors: amounts falling due within one year	15	**(2,187)**	(2,299)
Net current (liabilities) / assets		**(2,131)**	(2,112)
Total assets less current liabilities		**240,777**	117,396
Net assets		**240,777**	117,396
Capital and reserves			
Called-up share capital	19	**235**	223
Share premium account	19	**235,999**	112,611
Retained earnings		**4,543**	4,562
Total equity		**240,777**	117,396

As permitted by section 408 of the Companies Act 2006 no separate profit and loss account is presented for the Company. The Company's result for the year was a loss of £19,000 (2023: profit of £9,106,000). In the prior year, the Company recognised £9,160,000 of income from inter-group dividends in the year as a result of the group simplification process; see note 21 for further details.

The notes on pages 39 to 69 are an integral part of these financial statements.

The financial statements on pages 33 to 69 were approved by the Board of Directors on 24 October 2024 and signed on their behalf by:

Amy Grey
Chief Financial Officer

Sheffield Forgemasters International Limited

Consolidated statement of changes in equity

	Called-up share capital	Share premium account	Share option reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2022	**218**	**63,216**	**80**	**(3,883)**	**59,631**
Loss for the year	-	-	-	(5,396)	(5,396)
Total comprehensive loss for the year	-	-	-	**(5,396)**	**(5,396)**
Issue of share capital	5	49,395	-	-	49,400
Release of share option reserve	-	-	(80)	80	-
Total transactions recognised directly in equity	5	49,395	(80)	80	49,400
Balance as at 31 March 2023 and 1 April 2023	**223**	**112,611**	-	**(9,199)**	**103,635**
Loss for the year	-	-	-	(4,098)	(4,098)
Total comprehensive loss for the year	-	-	-	**(4,098)**	**(4,098)**
Issue of share capital	12	123,388	-	-	123,400
Total transactions recognised directly in equity	12	123,388	-	-	123,400
Balance as at 31 March 2024	**235**	**235,999**	-	**(13,297)**	**222,937**

Sheffield Forgemasters International Limited

Company statement of changes in equity

	Called-up share capital	Share premium account	Retained earnings	Total equity
	£'000	£'000	£'000	£'000
Balance as at 1 April 2022	**218**	**63,216**	**(4,544)**	**58,890**
Profit for the year	-	-	9,106	9,106
Total comprehensive loss for the year	**-**	**-**	**9,106**	**9,106**
Issue of share capital	5	49,395	-	49,400
Total transactions recognised directly in equity	5	49,395	-	49,400
Balance as at 31 March 2023 and 1 April 2023	**223**	**112,611**	**4,562**	**117,396**
Profit for the year	-	-	(19)	(19)
Total comprehensive loss for the year	**-**	**-**	**(19)**	**(19)**
Issue of share capital	12	123,388	-	123,400
Total transactions recognised directly in equity	12	123,388	-	123,400
Balance as at 31 March 2024	**235**	**235,999**	**4,543**	**240,777**

Sheffield Forgemasters International Limited

Consolidated statement of cash flows
for the year ended 31 March 2024

	Note	Year to 31 March 2024 £'000	Year to 31 March 2023 £'000
Cash flows from operating activities			
Net cash from / (used in) operating activities	20	**15,222**	15,349
Net cash from / (used in) operating activities		**15,222**	15,349
Cash flows from investing activities			
Purchase of tangible assets	10	**(107,163)**	(49,491)
Government grants received		**(18)**	1,215
Interest received	8	**488**	10
Net cash used in investing activities		**(106,693)**	(48,266)
Cash flows from financing activities			
Interest paid	8	**(266)**	(253)
Proceeds from issue of ordinary share capital	19	**123,400**	49,400
Employee benefit trust loan repayment		**-**	-
Revolving credit facility net drawn / (repaid)		**(7,000)**	7,000
Net cash from financing activities		**116,134**	56,147
Net increase in cash and cash equivalents		**24,663**	23,230
Cash and cash equivalents at the beginning of the year		**44,494**	21,264
Exchange on cash and cash equivalents		**-**	-
Cash and cash equivalents at the end of the year		**69,157**	44,494
Cash and cash equivalents comprise:			
Cash at bank and in hand		**69,157**	44,494
Cash and cash equivalents at the end of the year		**69,157**	44,494

An analysis of changes in net debt is included at note 20.

The Company is a qualifying entity for the purposes of FRS 102 and has elected to take the exemption under paragraph 1.12(b) of FRS 102 not to present the Company statement of cash flows.

Notes to the financial statements

1 General information

Sheffield Forgemasters International Limited (the "Company") is a private company limited by shares and incorporated in England and Wales. The address of its registered office is Brightside Lane, Sheffield, S9 2RW.

The Company is a parent and the nature of the Group's operations and its principal activities are disclosed in the Strategic report and Directors' report.

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.

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 Group and individual financial statements of Sheffield Forgemasters International Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

These consolidated and separate financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group and Company 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 has taken advantage of the exemption in section 408 of the Companies Act 2006 from presenting its individual profit and loss account.

The presentation currency of these financial statements is GBP. All amounts in the financial statements have been rounded to the nearest £1,000.

2 Summary of significant accounting policies (continued)

Going concern

The Directors must consider and determine whether the Group has sufficient financial resources to meet its obligations as they fall due for a period no less than 12 months from the date of approval of these financial statements.

In making this assessment, the Directors have considered a range of factors, including the prospects for the markets that the Group serves; the position, actions and intentions of competitors; the customer base of the Group and any reliance on a small group of customers; the supplier base and any reliance on key suppliers; staff retention and the risk of loss of any key members of staff; any actual or threatened litigation; relationships with regulators; any actual or threatened fines; historic, current and projected financial performance and cashflow; relationships with funders and availability of external funding; and the plans and intentions of management. The Directors have also considered the potential impact of the Russia-Ukraine conflict and further energy cost escalation on the Group.

The Ministry of Defence has provided a revolving credit facility with a limit of £15m and an expiry date of 31 December 2025 that will provide liquidity for the Group.

In undertaking their assessment, the Directors have prepared financial projections for a period of at least 12 months from the date of the approval of these accounts. The current economic conditions have introduced additional uncertainty into the Directors assessment, such that potential future outcomes are more difficult to reliably estimate. The Directors have therefore considered a number of sensitivities to their projections to quantify potential downside risks to future financial performance including:

- Reduction in order intake from commercial markets;
- Impact of major machinery breakdown on activity levels for defence and commercial customers; and
- Impact of cost base inflation and escalation of energy costs.

The Directors have also identified a number of mitigating actions to partially offset these downside risks.

The Directors have considered a substantial set of cumulative downside sensitivities that are not considered reasonably likely to occur and noted that cash headroom was still maintained without the need for further mitigation.

The Directors also note that the Group had net current assets of £49.4m at 31 March 2024. This was due to a significant unwinding of progress payments in the period driven by deliveries to UK Defence customers and the injection of equity from the Ministry of Defence, leaving the Group with a cash balance of £69.2m at 31 March 2024.

On this basis, the Directors have concluded that the Group does have sufficient financial resources to meet its obligations as they fall due for the next 12 months and no material uncertainty relating to Going Concern has been identified. As such, the Going Concern basis is determined to be appropriate for the preparation of the financial statements for the year ended 31 March 2024.

2 Summary of significant accounting policies (continued)

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions, subject to conditions. The Company has taken advantage of the following exemptions in its individual financial statements:

- From preparing a statement of cash flows, on the basis that it is a qualifying entity and the consolidated statement of cash flows, included in these financial statements, includes the Company's cash flows.
- From disclosing the Company key management personnel compensation, as required by FRS 102 paragraph 33.7.

Basis of consolidation
The Group consolidated financial statements include the financial statements of the Company and all of its subsidiary undertakings made up to 31 March.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Foreign currency
The Group financial statements are presented in pound sterling (£) and are rounded to thousands (£'000). The Company's functional and presentational currency is the pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'Interest receivable and similar income / Interest payable and similar expenses'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other operating (losses) / gains'.

Revenue recognition
Turnover comprises the sales value of goods and services supplied during the year, exclusive of Value Added Tax and trade discounts. Revenue recognition and contract accounting is detailed in note 3.

2 Summary of significant accounting policies (continued)

Exceptional items
Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Company. They are items that are material either because of their size or their nature, and are considered non-recurring. These items are presented within the line items to which they best relate and reported separately as exceptional items. Note 5 includes further information regarding exceptional items.

Research and development ("R&D") expenditure
Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process meets the recognition criteria as set out in FRS 102 Section 18: Intangible Assets other than Goodwill.

Development activities include the design, construction or testing of the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and borrowing costs.

Other development expenditure that does not meet the criteria for capitalisation is recognised in the profit and loss account as an expense as incurred.

Research and development expenditure credits ("RDEC")
Where applicable, the Group claims RDEC from HMRC and any amounts receivable are netted against 'Cost of sales' in the profit and loss account. As the RDEC scheme is an 'above the line' tax credit which is taxable at the normal corporation tax rate, the gross amount, before deduction of corporation tax, is recognised against Cost of sales.

Employee benefits
The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution plans.

Short term benefits
Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Defined contribution pension plans
The Group operates defined contribution plans for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than twelve months after the reporting date, then they are discounted to their present value.

2 Summary of significant accounting policies (continued)

Annual bonus plan
The Group operates annual bonus plans for employees. An expense is recognised in the profit and loss account when the Group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

Taxation
Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

Current tax
Current tax is the amount of corporation tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

Deferred tax
Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Tangible assets
Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs and borrowing costs capitalised.

In order to avoid unnecessary downtime in the event of potential future breakdowns, critical equipment spares necessary for the ongoing operations are capitalised and disclosed within plant and machinery.

Depreciation and residual values
Land is not depreciated. Depreciation on other assets is calculated using the straight-line method, to allocate the cost to their residual values over their estimated useful lives, as follows:

Freehold land	Not depreciated
Freehold buildings	50 years
Plant and machinery	4-10 years
Loose tools	4-7 years
Assets under construction	Not depreciated

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

2 Summary of significant accounting policies (continued)

Impairment reviews
The Group assesses at each reporting date whether tangible assets are impaired. Further details regarding assessing for impairment are included in note 3.

Subsequent additions and major components
Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life.

Repairs, maintenance and minor inspection costs are expensed as incurred.

Assets under construction
Assets under construction are stated at cost. These assets are not depreciated until it is available for use and are reviewed for impairment at each reporting date.

Derecognition
Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in 'Cost of sales'.

Leased assets
At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

The Group does not hold any finance leased assets.

Operating leased assets
Leases that do not transfer all the risks and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Lease incentives
Incentives received to enter into an operating lease are credited to the profit and loss account, to reduce the lease expense, on a straight-line basis over the period of the lease.

As a lessor
Lease income under operating leases is credited to profit or loss on a straight-line basis over the lease term.

2 Summary of significant accounting policies (continued)

Government grants
Government grants, including deferred capital, are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to the grant and that the grant will be received. The Group applies the accruals model in its recognition of government grants, and therefore recognises the grants as either grants relating to revenue or grants relating to assets.

Government grants relating to revenue are deferred and recognised in profit and loss over the period necessary to match them with the costs that they are intended to compensate. Where costs have already been incurred, the grant is recognised when it becomes receivable. These grants are recognised as 'Other operating income'.

Government grants relating to assets are deferred and recognised as 'Other operating income' on a systematic basis over the expected useful life of the asset. Where part of a grant relating to assets is deferred, it is recognised as deferred income and is not deducted from the carrying amount of the asset.

Investments
Investments in subsidiaries are held at cost less accumulated impairment losses.

Inventories
Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell. Costs of raw materials, spares and stores are determined at purchase price including delivery charges. Costs of partly processed and finished products comprise costs of production including works overheads based on normal levels of activity incurred in the normal course of business in bringing the product to its present location and condition.

Net realisable value is the value at which it is estimated that inventory can be realised in the normal course of business after allowing for the cost of conversion from its existing stage to a finished condition and all costs to be incurred in marketing, selling and distribution directly related to the items in question.

Inventories received on consignment and their related obligations are recognised in current assets and creditors respectively on adoption of the consignment inventory when the risks and rewards of ownership pass to the Group.

Inventories are recognised as an expense in the period in which the related revenue is recognised.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the profit and loss account. Where a reversal of the impairment is recognised the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the profit and loss account.

Cash and cash equivalents
Cash and cash equivalents include cash in hand and deposits held at call with banks. The Group has access to a working capital facility as detailed in note 15. The balance on this facility is recognised in creditors.

2 Summary of significant accounting policies (continued)

Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

Contingencies

Contingent liabilities are not recognised. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control. Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

Financial instruments

The Group has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

Basic financial assets, including trade receivables, other receivables, cash and bank balances, are initially recognised at transaction price less attributable transaction costs.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled, or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party, or (iii) despite having retained some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

2 Summary of significant accounting policies (continued)

Financial liabilities
Basic financial liabilities, including trade payables, other payables, secured loans, and loans from fellow Group entities are initially recognised at transaction price plus attributable transaction costs.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. The fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Derivatives
Derivatives, including forward window foreign currency contracts and forward energy contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate.

Further details regarding the Group's derivatives are included in note 18.

The Group does not apply hedge accounting in respect of forward window foreign exchange contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.

The Group does not recognise forward energy contracts at fair value as the contracts are entered into in accordance with the Group's own usage requirements. The costs associated with the contracts are therefore expensed to the profit and loss account as and when the energy is delivered and thus the contracts are physically settled.

Related party transactions
The Group discloses transactions with related parties which are not wholly owned within the same group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

3 Critical accounting judgements and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical judgements in applying the Group's accounting policies

Revenue recognition
The Group recognises revenue from contracts when goods and services are delivered to customers, unless the contract specifies an alternative point at which revenue recognition is judged to be appropriate.

The Group monitors the cost to complete of each active contract using judgement and estimates as to the future probable outcome on delivery to the customer. If it is estimated that a contract will be loss-making, the Group recognises the expected loss immediately by way of a provision for a loss-making contract.

Impairment testing
An impairment test is a comparison of the value of investments held by an entity, to a terminal value based on a Discount Cash Flow calculation for the 10 years ending 31 March 2034. If the terminal value is less than the value of net debt held by the Group, then an impairment charge is required.

The Directors exercise their judgement in determining whether the carrying value of the investments of the Company should be subject to an impairment charge in any given financial period, as well as the carrying value of the assets of the Group. This judgement involves the use of estimates in relation to the expected future cashflows of the Group and the use of an appropriate discount rate to establish the terminal value of those cashflows. This value is then compared to the investments value recognised in the Company's balance sheet, which is subject to the application of the accounting policies of the Group.

In this reporting period, the Directors exercised their judgement based on information available as at 31 March 2024. The Directors took account of the UK Defence Programme work the Group expects to win in future years and the capital investment that the Ministry of Defence is planning to undertake over the next 10 years. The Directors have based their assessment of the future cashflows of the Group on the expected life of the assets now under construction, which they judge to be at least 30 years from their completion. This enables a long-term forecast period for the future cashflows to 2064. These future cashflows were then discounted at a risk-adjusted rate of 11%, reflecting the required rate of return of an average market participant.

As a result of these assumptions, the terminal value of the future cashflows of the Group was estimated to be £535m. The carrying value of the investments of the Company, excluding cash balances, was £243m at 31 March 2024, prior to recognition of any impairment charge. In addition, there were no notable indicators of impairment relating to the assets held by the Group. Therefore, an impairment charge has not been recognised in the year.

3 Critical accounting judgements and estimation uncertainty (continued)

Key accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Depreciation of tangible assets

The Directors exercise their judgement in estimating the useful economic life of tangible fixed assets. The useful life of an asset is based on the estimated out of service date, and for other assets the estimated period of use. The useful lives of property, plant and equipment are reviewed annually and revised where necessary to reflect changing circumstances such as decisions taken in the latest finalised Annual Budget Cycle or other strategic reviews.

4 Turnover

Analysis of turnover by geography

	2024 £'000	2023 £'000
United Kingdom	**83,802**	86,150
Rest of Europe	**7,571**	4,129
North America	**6,720**	6,559
Other	**2,009**	2,590
Total Group revenue	**100,102**	99,428

Analysis of turnover by category

	2024 £'000	2023 £'000
Manufacture and sale of steel forgings, castings and ingots	**98,792**	98,524
Provision of consulting services	**1,310**	904
Total Group revenue	**100,102**	99,428

The Company (SFIL) did not generate any revenue in the current or prior year.

5 Operating profit

Operating profit is stated after charging / (crediting):

	Note	2024 £'000	2023 £'000
Loss on disposal of tangible assets	10	**144**	936
Operating lease charges	22	**2,712**	1,779
Foreign exchange losses		**286**	168
Research and development tax credits		**(1,583)**	(1,790)
Restructuring costs		**-**	236
Total fees payable to the auditor and its associates		**123**	123

Administrative expenses include £22,000 (2023: £406,000) of exceptional costs. Exceptional costs include restructuring costs of £nil (2023: £236,000) and group simplification costs of £22,000 (2023: £170,000). See note 21 for further details regarding the group simplification.

The fees payable to the auditor and its associates were as follows:

	2024 £'000	2023 £'000
Audit of the parent and consolidated financial statements	**13**	12
Audit of associated entity financial statements	**110**	111
Total audit fees and total auditor's remuneration	**123**	123

The Company's auditor did not receive any remuneration for non-audit services in the current or prior year.

Audit fees incurred by the Company and its subsidiaries are borne in their entirety by Sheffield Forgemasters Engineering Limited on behalf of the Group.

6 Other operating income

	Note	2024 £'000	2023 £'000
Grants relating to revenue recognised	15	**47**	1,215
Grants relating to assets recognised	15	**65**	65
Deferred capital released	15	**3,070**	3,072
Other items		**35**	3
Total other operating income		**3,217**	4,355

There are no unfulfilled conditions or other contingencies attaching to grants that have been recognised in other income.

The Company did not generate any other operating income in the current or prior year.

7 Employees and Directors

Employees

Group

	2024 £'000	2023 £'000
Wages and salaries	**28,342**	25,079
Social security costs	**2,514**	2,290
Other pension costs	**1,244**	1,079
Employee costs charged to profit and loss	**32,100**	28,448

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

	2024 Number	2023 Number
Operational	**436**	408
Support services	**205**	200
Total	**641**	608

Company

The average number of persons (including Directors) employed during the year was 3 (2023: 23). All employees were employed in a support services capacity. Employee costs incurred by the Company are borne in their entirety by Sheffield Forgemasters Engineering Limited on behalf of the Company.

7 Employees and Directors (continued)

Directors

The Directors' emoluments were as follows:

	2024	2023
	£'000	£'000
Aggregate remuneration	**1,080**	1,109
Other pension costs	**68**	70
Total	**1,148**	1,179

During the year, 3 Directors (2023: 3) were members of the Group's defined contribution schemes.

Directors' emoluments include amounts paid to the Directors of the Company.

The costs relating to Directors' emoluments are borne in their entirety by Sheffield Forgemasters Engineering Limited on behalf of the Group. No recharge to any other Group member is made.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2024	2023
	£'000	£'000
Aggregate remuneration	**468**	456
Other pension costs	**52**	52
Total	**520**	508

Key management compensation

The Directors have determined that key management includes the Directors of the Group only.

Post-employment benefits

Group

The Group operates two defined contribution schemes for its employees, which are administered separately by Prudential and National Pension Trust.

The amount recognised as an expense for the defined contribution schemes was £1,244,000 (2023: £1,079,000) in relation to current year contributions.

The amount owed in respect of the defined contribution schemes at the year end was £285,000 (2023: £240,000).

Company

The Company had no post-employment benefits during the current or previous year.

8 Net interest

	2024 £'000	2023 £'000
Interest receivable and similar income:		
Bank interest received	**(488)**	(10)
Total interest receivable and similar income	**(488)**	(10)
Interest payable and similar expenses:		
Interest payable on secured loans	**175**	218
Losses on derivative financial instruments	**91**	35
Total interest payable and similar expenses	**266**	253
Net interest (income) / expense	**(222)**	243

The Company did not incur any interest or similar expense, or receive any interest or similar income, in the current or prior year.

9 Taxation

Tax expense included in profit or loss

	2024 £'000	2023 £'000
Current tax		
UK Corporation tax on loss for the year	**297**	141
Adjustments in respect of prior periods	**84**	228
Total current tax	**381**	369
Deferred tax		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior periods	-	-
Impact of change in tax rate	-	-
Total deferred tax	-	-
Tax on loss	**381**	369

Reconciliation of tax charge

The tax assessed for the year is higher (2023: higher) than the standard rate of corporation tax in the UK of 25% (2023: 19%). The differences are explained below:

	2024 £'000	2023 £'000
Loss before tax	**(3,717)**	(5,027)
Loss multiplied by the standard rate of tax in the UK of 25% (2023: 19%)	**(929)**	(955)
Effects of:		
Expenses not deductible for tax purposes	**5,049**	873
Income not subject to tax	**(500)**	(357)
Adjustments in respect of prior periods	**84**	228
RDEC not provided	**297**	141
Movement in deferred tax asset not recognised	**(3,620)**	439
Tax charge for the year	**381**	369

Tax rate changes

At the Spring Budget 2021, the UK government announced that the Corporation Tax main rate would increase to 25% for profits above £250,000. A small profits rate of 19% was also announced for companies with profits of £50,000 or less. Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This new law was substantively enacted on 24 May 2021 and is effective from 1 April 2023.

10 Tangible assets

Group

	Loose tools £'000	Land and buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 April 2023	20,113	23,626	116,661	64,337	224,737
Transfers	400	237	3,240	(3,877)	-
Additions	3,660	22,056	394	81,053	107,163
Disposals	-	-	(144)	-	(144)
At 31 March 2024	**24,173**	**45,919**	**120,151**	**141,513**	**331,756**
Accumulated depreciation and impairment					
At 1 April 2023	13,734	11,237	96,710	-	121,681
Transfers					
Charge for the year	1,258	281	4,485	-	6,024
Disposals	-	-	(144)	-	(144)
At 31 March 2024	**14,992**	**11,518**	**101,051**	**-**	**127,561**
Net book amount					
At 31 March 2024	**9,181**	**34,401**	**19,100**	**141,513**	**204,195**
At 31 March 2023	6,379	12,389	19,951	64,337	103,056

During the year, a number of assets under construction were completed and were therefore transferred into land and buildings or plant and machinery accordingly, depending on the nature of the asset.

The net book value of land, included in land and buildings above, includes freehold land of £21,019,000 (2023: £4,626,000).

Company

The Company had no tangible assets in the current or prior year.

11 Investments

Shares in group undertakings – Company only

	£'000
Cost	
At 1 April 2023	119,508
Additions	123,400
At 31 March 2024	**242,908**
Provisions for impairment	
At 1 April 2023	-
Charge for the year	-
At 31 March 2024	-
Net book amount	
At 31 March 2024	**242,908**
At 31 March 2023	119,508

Shares in Group undertakings are stated at cost. The Directors consider the value of the investments to be supported by their underlying net assets.

The list of subsidiaries is as follows:

Name	Address of the registered office	Nature of business	Interest
Sheffield Forgemasters Engineering Limited	Brightside Lane, Sheffield, S9 2RW	Manufacture of steel forgings and castings	100% ordinary shares
Sheffield Forgemasters Steel Limited	Brightside Lane, Sheffield, S9 2RW	Dormant	100% ordinary shares

All of the above subsidiaries are included in the consolidation. The Company's investments are all direct ownership.

12 Inventories

Group

	2024 £'000	2023 £'000
Raw materials	**10,570**	9,354
Work in progress	**15,767**	20,182
Total	**26,337**	29,536

There is no significant difference between the replacement cost of the inventory and its carrying value.

Inventories are stated after provisions for impairment of £16,881,000 (2023: £13,164,000), which is included within 'cost of sales'.

Inventories recognised as an expense during the year totalled £59,516,000 (2023: £54,784,000).

Company

The Company had no inventories in the current or prior year.

13 Debtors

Amounts falling due within one year

	Group 2024 £'000	Group 2023 £'000	Company 2024 £'000	Company 2023 £'000
Trade debtors	**34,250**	17,724	**-**	-
Amounts owed by Group undertakings	**-**	-	**-**	-
Other debtors	**1,970**	1,085	**-**	187
Other taxation and social security	**7,117**	-	**-**	-
Prepayments and accrued income	**10,130**	11,810	**56**	-
Total	**53,467**	30,619	**56**	187

Trade debtors are stated after provisions for impairment of £32,000 (2023: £165,000).

Amounts owed by Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

No amounts fall due after more than one year in the current or prior year.

14 Deferred tax

Group

The Directors have judged that it is not appropriate to recognise any deferred tax asset in the current or prior year, based on their expectations as to the future trading profitability over the short term. The total potential unrecognised deferred tax asset remaining, calculated at 25% (2023: 25%) consists of the following deferred tax assets / (liabilities):

	Provided 2024 £'000	Provided 2023 £'000	Unprovided 2024 £'000	Unprovided 2023 £'000
Excess of tax written down value over net book value of qualifying assets	-	-	-	-
Other short-term timing differences	-	-	**597**	144
Tax losses carried forward	-	-	**6,582**	9,940
Total	-	-	**7,179**	10,084

Company

The Company had unprovided deferred tax in relation to tax losses carried forward of £249,000 (2023: £245,000).

15 Creditors: amounts falling due within one year

	Group 2024 £'000	Group 2023 £'000	Company 2024 £'000	Company 2023 £'000
Trade creditors	**19,935**	19,064	-	-
Amounts owed to Group undertakings	-	-	**2,187**	2,299
Other taxation and social security	**783**	5,033	-	-
Other creditors	**458**	2,456	-	-
Secured loan	-	7,000	-	-
Grants relating to assets	**65**	65	-	-
Deferred capital	**3,070**	3,070	-	-
Deferred income	**47,953**	31,584	-	-
Derivative financial instruments	**143**	51	-	-
Accruals	**27,106**	8,029	-	-
Total	**99,513**	76,352	**2,187**	2,299

Amounts owed to Group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

15 Creditors: amounts falling due within one year (continued)

Secured loan

The Group has access to a working capital facility which has been provided by the Ministry of Defence since 19 August 2021. At the year end the balance repayable on this facility was £nil (2023: £7,000,000). The facility has a borrowing limit of £15m and is due for renewal at 31 December 2025. The facility is secured by fixed and floating charges over the assets of the Group. Interest is charged at Bank of England base rate +2.25% on the drawn-down amount. A non-utilisation fee of 0.75% is charged on the undrawn amount.

Deferred capital

Deferred capital represents amounts recoverable under customer contracts to fund investments in fixed assets.

16 Creditors: amounts falling due after more than one year

	Group 2024 £'000	Group 2023 £'000	Company 2024 £'000	Company 2023 £'000
Grants relating to assets	**233**	298	-	-
Deferred capital (see note 15)	**29,969**	26,386	-	-
Total	**30,202**	26,684	-	-

17 Provisions for other liabilities

Group

The Group had the following provisions during the year:

	Other
	£'000
At 1 April 2023	1,034
Released in the year	-
Additional provisions	-
Utilised in the year	(530)
At 31 March 2024	**504**

Other provisions

Other provisions relate to a product liability matter and late delivery compensation. It is expected that these provisions will be utilised over the next two years.

Company

The Company had no provisions during the current or previous year.

18 Financial instruments

Group

The Group had the following financial instruments:

	Note	2024 £'000	2023 £'000
Financial assets at fair value through profit or loss		-	-
Financial assets that are debt instruments measured at amortised cost			
Trade debtors	13	**34,250**	17,724
Other debtors	13	**1,970**	1,085
		36,220	18,809
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments	15	**143**	51
		143	51
Financial liabilities measured at amortised cost			
Trade creditors	15	**19,935**	19,064
Accruals and deferred income	15	**75,059**	39,613
Other creditors	15	**458**	2,456
		95,452	61,133

Derivative financial instruments – forward window foreign currency contracts

The Group enters into forward window foreign currency contracts to mitigate exchange risk for certain foreign currency receivables and payables, in line with the Group's hedging policy. At the year end the Group had the following open forward window foreign currency contracts:

- Buy EUR 100,000 against GBP by 28 June 2024 at a fixed rate of 1.1391
- Buy EUR 870,000 against GBP by 28 June 2024 at a fixed rate of 1.147518
- Buy EUR 920,000 against GBP by 28 June 2024 at a fixed rate of 1.135009
- Buy EUR 1,000,000 against GBP by 28 June 2024 at a fixed rate of 1.13443
- Buy EUR 2,245,000 against GBP by 28 June 2024 at a fixed rate of 1.160634
- Buy EUR 230,000 against GBP by 27 September 2024 at a fixed rate of 1.155471
- Buy EUR 435,000 against GBP by 27 September 2024 at a fixed rate of 1.133946
- Buy EUR 780,000 against GBP by 27 September 2024 at a fixed rate of 1.14242
- Buy EUR 2,155,000 against GBP by 27 September 2024 at a fixed rate of 1.156047
- Buy EUR 560,000 against GBP by 27 December 2024 at a fixed rate of 1.151113
- Buy EUR 830,000 against GBP by 27 December 2024 at a fixed rate of 1.137607
- Buy EUR 1,320,000 against GBP by 31 January 2025 at a fixed rate of 1.150045
- Sell EUR 920,000 against GBP by 28 June 2024 at a fixed rate of 1.164335

18 Financial instruments (continued)

Derivative financial instruments – forward window foreign currency contracts (continued)

- Sell USD 25,000 against GBP by 28 June 2024 at a fixed rate of 1.276556
- Sell USD 25,000 against GBP by 28 June 2024 at a fixed rate of 1.229355
- Sell USD 180,000 against GBP by 28 June 2024 at a fixed rate of 1.271313
- Sell USD 465,000 against GBP by 28 June 2024 at a fixed rate of 1.271055
- Sell USD 950,000 against GBP by 28 June 2024 at a fixed rate of 1.27473
- Sell USD 1,210,000 against GBP by 28 June 2024 at a fixed rate of 1.267996
- Sell USD 25,000 against GBP by 27 September 2024 at a fixed rate of 1.22979
- Sell USD 245,000 against GBP by 27 September 2024 at a fixed rate of 1.2719
- Sell USD 1,050,000 against GBP by 27 September 2024 at a fixed rate of 1.269157
- Sell USD 135,000 against GBP by 27 December 2024 at a fixed rate of 1.272578
- Sell USD 135,000 against GBP by 27 December 2024 at a fixed rate of 1.270498
- Sell USD 135,000 against GBP by 28 March 2025 at a fixed rate of 1.27176

The contracts are measured at fair value, which is determined using valuation techniques that utilise observable inputs. The key inputs used in valuing the derivatives are the forward exchange rates for GBP:USD and GBP:EUR. The fair value of the contracts is £143,000 liability (2023: £51,000 liability).

Derivative financial instruments – forward energy contracts

The Group enters into forward energy (electricity and gas) contracts to mitigate market price risk, in line with the Group's hedging policy. The contracts allow the Group to agree a fixed price with its energy suppliers for the delivery of a specified volume of natural gas or a specified supplied kWh of electricity.

As the contracts are entered into in accordance with the Group's own usage requirements, the costs associated with the contracts are expensed to the profit and loss account as and when the energy is delivered and thus the contracts are physically settled. Accordingly, no valuation of the open contracts as at the year-end is required.

18 Financial instruments (continued)

Company

The Company has the following financial instruments:

	Note	2024 £'000	2023 £'000
Financial assets at fair value through profit or loss		-	-
Financial assets that are debt instruments measured at amortised cost			
Other receivables	13	-	187
		-	187
Financial liabilities measured at fair value through profit or loss		-	-
Financial liabilities measured at amortised cost			
Amounts owed to Group undertakings	15	**2,187**	2,299
		2,187	2,299

19 Share capital and other reserves

Share capital and share premium
Ordinary shares of ten pence (£0.10) each. Allotted, called-up and fully paid.

	Group and Company		
	Number	Par value £	Premium £
At 1 April 2023	2,230,507	223,051	112,611,231
Issued on 12 April 2023	10,000	1,000	9,999,000
Issued on 6 June 2023	11,200	1,120	11,198,880
Issued on 14 September 2023	9,000	900	8,999,100
Issued on 16 October 2023	7,000	700	6,999,300
Issued on 9 February 2024	28,000	2,800	27,997,200
Issued on 12 March 2024	28,200	2,820	28,197,180
Issued on 25 March 2024	30,000	3,000	29,997,000
At 31 March 2024	**2,353,907**	**235,391**	**235,998,891**

Throughout the year the Ministry of Defence subscribed for new equity as detailed in the above table.

There is a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital. Shareholders are entitled to one vote per share at meetings of the Company.

Retained earnings

Retained earnings represents cumulative profits or losses.

20 Notes to the cash flow statement

	Note	2024 £'000	2023 £'000
Loss for the financial year		**(4,098)**	(5,396)
Adjustments for:			
Tax on loss		**381**	369
Net interest (income) / expense		**(222)**	243
Operating loss		**(3,939)**	(4,784)
Depreciation of tangible assets	10	**6,025**	5,637
Loss on disposal of tangible assets	5	**-**	936
Non-cash tax charge on RDEC claims	9	**(381)**	(369)
Government grants recognised	6	**(47)**	(1,280)
Non-cash movement in other provisions	17	**-**	550
Working capital movements:			
- Decrease in inventories	12	**3,199**	5,252
- Decrease in progress payments		**-**	(6,699)
- (Increase) / decrease in debtors	13	**(22,848)**	1,799
- Decrease in derivative financial instruments	18	**92**	51
- Increase in payables	15	**33,651**	15,259
- Decrease in other provisions	17	**(530)**	(1,003)
Net cash from operating activities		**15,222**	15,349

Analysis of changes in net debt

	Derivative financial instruments £'000	Borrowings £'000	Cash and cash equivalents £'000	Total £'000
At 1 April 2023	**(51)**	**(7,000)**	**44,494**	**37,443**
Fair value movements	(92)	-	-	(92)
Cash flows	-	7,000	24,663	31,663
At 31 March 2024	**(143)**	**-**	**69,157**	**69,014**

21 Group simplification

During the previous financial year, as members of the Group, Sheffield Forgemasters Engineering Limited, Sheffield Forgemasters Steel Limited, Sheffield Forgemasters RD26 Limited, Vulcan SFM Limited and Steel Propeller Limited underwent a group restructuring and corporate simplification ("Group simplification") in order to streamline the Group's corporate structure into a holding company with a single subsidiary, and to alleviate the administrative burden on management resources for compliance and regulatory reporting.

Other benefits of the Group simplification included capital and cash efficiencies, reduced compliance costs, enhanced optimisation of distribution streams, rationalisation of intercompany balances, a simpler group structure and more efficient operating model, as well as improved transparency for stakeholders.

The trade and assets of the below subsidiary entities were transferred into the main trading entity, Sheffield Forgemasters Engineering Limited on 28 October 2022:

- Sheffield Forgemasters Steel Limited
- Sheffield Forgemasters RD26 Limited
- Steel Propeller Limited
- Vulcan SFM Limited

Assets transferred into Sheffield Forgemasters Engineering Limited consisted of:

	Sheffield Forgemasters Steel Limited	Sheffield Forgemasters RD26 Limited	Steel Propeller Limited	Vulcan SFM Limited	Total
	£'000	£'000	£'000	£'000	£'000
Fixed Assets	8,495	128	-	-	8,623
Inventories	4,663	-	-	-	4,663
Cash at bank and in hand	-	-	2,583	7,685	10,268
Total	**13,158**	**128**	**2,583**	**7,685**	**23,554**

The step plan and legal documents required to implement the Group simplification were prepared by PricewaterhouseCoopers LLP and Addleshaw Goddard LLP.

Each subsidiary had existing intercompany indebtedness outstanding between them which was offset and settled by the subsidiaries on 28 October 2022 in connection with the Group simplification. The subsidiary entities above agreed to enter into this agreement and formalise the terms of the Group simplification.

Sheffield Forgemasters RD26 Limited, Steel Propeller Limited and Vulcan SFM Limited were all dissolved on 14 March 2023. No further trading activity took place in Sheffield Forgemasters Steel Limited after the Group simplification exercise was executed on 28 October 2022; the company is now non-trading and the Directors plan to dissolve the company in the near future.

Costs relating to the Group simplification of £22,000 (2023: £170,000) were classified as exceptional costs within administrative expenses.

22 Capital and other commitments

Group

At 31 March the Group had the following capital commitments:

	2024 £'000	2023 £'000
Contracts for future capital expenditure not provided in the financial statements – property, plant and equipment	**286,312**	161,893
Total	**286,312**	161,893

The Group had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

Payments due	2024 £'000	2023 £'000
Not later than one year	**186**	262
Later than one year and not later than five years	**122**	350
Later than five years	**-**	-
Total	**308**	612

The Group had the following future minimum lease payments receivable as a lessor under non-cancellable operating leases for each of the following periods, relating to the renting out of a property:

Payments receivable	2024 £'000	2023 £'000
Not later than one year	**178**	-
Later than one year and not later than five years	**370**	-
Later than five years	**-**	-
Total	**548**	-

The Group had no other off-balance sheet arrangements.

Company

The Company did not have any capital or other commitments at the end of the current or prior year.

23 Related party transactions

Group

Transactions between Group entities, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

See note 7 for disclosure of the Directors' remuneration and key management compensation.

The Directors are not aware of any other related party transactions or balances that would require disclosure in these financial statements.

Company

Other than the transactions disclosed for the Group, the Company's other related party transactions were with wholly owned subsidiaries. As permitted by FRS 102 paragraph 33.1A, related party disclosures are not required where transactions are entered into by two or more members of a group, provided that any subsidiary which is a party to the transaction is a wholly owned member of the group.

24 Controlling party

Group and Company

The Company is owned by The Secretary of State for Defence of Great Britain and Northern Ireland ("The Secretary of State"). Accordingly, there is no parent entity and the ultimate controlling party is The Secretary of State.

These financial statements are the only financial statements in which the Group is consolidated.

25 Events after the reporting period

There have been no events subsequent to 31 March 2024 that require further disclosure in these financial statements.

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