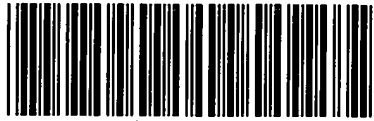


Sheffield Forgemasters Engineering Limited
Annual Report and Financial Statements
Year ended 31 March 2025

Registered number: 04864216

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Sheffield Forgemasters Engineering Limited

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Sheffield Forgemasters Engineering Limited

Officers and Professional Advisors

Directors

Sir Tim Fraser, KCB – Non-Executive Director

Gary Nutter – Chief Executive Officer

Gareth Barker – Chief Operating Officer

Amy Grey – Chief Financial Officer (resigned 31 December 2024)

T Patrick Davison – Chief Financial Officer (appointed 2 June 2025)

Simon Patrick Butcher – Non-Executive Director

Julie Colgan – Non-Executive Director

Andrew McNaughton – Non-Executive Director

Norman Bone – Non-Executive Director

Secretary

Sinead Proctor

Registered office

Brightside Lane

Sheffield

S9 2RX

Bankers

Barclays Bank PLC

2nd Floor

1 Park Row

Leeds

LS1 5AB

Auditors

Armstrong Watson Audit Limited

Third Floor

10 South Parade

Leeds

LS1 5QS

Sheffield Forgemasters Engineering Limited

Strategic Report

The Directors present their strategic report for the year ended 31 March 2025.

Strategic Objectives and Business Plan

Sheffield Forgemasters Engineering Limited (the "Company" or "SFEL") is a UK business with the unique capability to design and manufacture large, high-quality castings and forgings to the most exacting standards. The Company is part of the Sheffield Forgemasters International Limited Group (the "Group"). The business, based in Sheffield with 725 employees as at the year end, 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 increase defence delivery in line with MOD requirements.

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 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 2030;
- 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).

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Financial performance

A summary of the Company's financial performance for the year ended 31 March 2025 is below. The comparative figures for the year ended 31 March 2024 have been restated, as disclosed in note 23.

	Year to 31 March 2025 £'m	Year to 31 March 2024 as restated £'m
Turnover	114.4	94.9
Gross profit	21.3	16.0
Gross margin %	18.6%	16.8%
Other operating income	5.5	3.2
Overheads	(28.0)	(24.4)
Reported operating loss	<u>(1.2)</u>	<u>(5.2)</u>

Reported operating loss was £1.2m in the year (2024: loss of £5.2m). Gross margin has increased to 18.6% (2024: 16.8%). The business reported revenue of £114.4m (2024: £94.9m), driven by both UK and Global Defence customers. Gross margin improved as a result of these higher sales and driven by improving operating efficiencies and energy management initiatives. Operating loss continues to be mitigated by other operating income of £5.5m (2024: £3.2m), driven by grant-funded projects and new product development. Recognising the continuing headwinds faced by the Company during the year, the Directors regard the overall financial performance in the year as satisfactory.

UK Defence has continued to provide a strong flow of orders from major programmes. Demand from the Oil and Gas and Steel Processing sectors remains subdued, the latter impacted by weak automotive demand and tariff uncertainty. In the past year, significant long term orders have been secured to supply castings into Global Defence markets and forgings into very large plate mill back up rolls.

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

Underlying cashflow in the period was an inflow of £24.6m, driven by net working capital movements and financing costs. The Company incurred capital expenditure of £144.8m in the period, including spend on the recapitalisation of defence-critical assets. Equity of £159.0m 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 2025.

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Key performance indicators (KPI's)

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

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

	Year to 31 March 2025	Year to 31 March 2024	Measure
Gross margin %	18.7%	16.8%	Gross profit/turnover
Operating loss margin %	-1.0%	-5.3%	Operating loss/turnover
Sales per employee	£164,000	£148,000	Turnover/average no. of employees
Stock turnover (x times)	11.7x	7.2x	Turnover/stock and work in progress

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

Streamlined Energy and Carbon Reporting (SECR)

The disclosures required by the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to SECR, are included in the Group strategic report in the financial statements of Sheffield Forgemasters International Limited. Accordingly, SECR disclosures are not included in these financial statements.

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

The Directors of Sheffield Forgemasters Engineering 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 2025.

Long-term Strategy

The Directors 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 also prepared a detailed 5-year Business Plan identifying the action plans and milestones required to deliver the first phase of the vision in the period to 2030. This is set out on page 3.

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, and continue to engage 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:

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Section 172(1) Statement (continued)

Shareholder

The Directors have continued to engage extensively with our shareholder, supported by a DNO-UKGI shareholder team. This engagement has focused on 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.

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. The Board seeks to foster positive and open relationships with key customers and recognises the importance of the governance regimes they adopt in monitoring performance and development of the Company. This includes attending quarterly meetings with senior representatives of these customers and reviewing operational information on a regular basis. These relationships are led by our Customer Programmes Director and are supported by the Board as appropriate, using the shared information to make 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 regarding health and safety training and investment.

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Section 172(1) Statement (continued)

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, and continue to engage 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.

Principal risks

The Directors have established business processes that seek to identify, mitigate and manage a variety of risks. The principal risks identified are described below:

Macro-economic and Geopolitical risks

Both national and international economic and political factors outside the control of the Group could adversely impact the ability to operate commercially and financially. The Group uses expert advisors to keep abreast of change, operating strict procurement and derivative policies to mitigate risk of volatility causing fluctuations in commodities, energy, exchange/interest rates and other conditions.

Market risks

Cyclical characteristics of the markets served by the Group (namely Defence, Nuclear, Oil & Gas, Petrochem, Power Gen and Steel Processing) can cause fluctuations in demand for products. The Group seeks to maintain a balanced portfolio of Defence versus Commercial business. Whilst benefitting from a continued commitment from both UK and US governments to Defence spending, the Group also proactively engages new customers in new and existing markets, with a future focus on emerging Clean Energy. Thus, also addressing a specific risk of customer dependency on a small number of organisations.

Business Interruption risks

The nature of the operations of the Group carries a high degree of health, safety and fire risk. Adhering to the Group's safety standards and procedures are therefore critical to foster a culture of continuous improvement and a transparent approach to recording and communicating safety observations, interventions and accidents, whilst identifying and mitigating root cause. Maintaining working relationships with regulators and collaboration with customers allows for sharing of good practice and developing capability in the workforce.

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Section 172(1) Statement (continued)

Business Interruption risks (continued)

The location of the facilities close to the River Don in Sheffield has been subject to flood events in recent decades, from both the river itself and the local drainage systems and culverts. Flood resiliency measures have prevented further flooding more recently and the Shareholder recapitalisation plans allow for extensive flood works beneath the site. Flood insurance is also held.

Plant reliability presents risk of downtime and lost hours if certain machinery were to breakdown. Increasing machinery breakdown is likely with ageing equipment so the Group continues to invest in a rolling replacement cycle alongside a focussed, preventative repair and maintenance programme. The Shareholder recapitalisation plan will also address investment required to replace defence-critical assets.

Security, Data & Intellectual Property risks

The activities of hostile threat actors locally and internationally have the potential to disrupt access to key systems and data essential for business operations and also pose a risk to physical site security. The Group holds accreditations from Cyber Essentials Plus, the National Institute of Standards and Technology and IPSA for physical site security in order to maintain a high level of both physical and cyber-related security protocols. With an acute focus on protecting data, this is particularly important when involved in critical Defence work.

To ensure the Group continues to lead in technological advancements investments are made in both research and development, seeking to exploit a deep internal knowledge base, and also in controlled knowledge transfer through commercial consulting, maintaining intellectual property rights over certain data and processes.

Reputational risks

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. Maintaining strict policies for quality assurance, project management, health and safety, security, legal and regulatory along with export control allows the Group (and partners) to comply with all applicable anti-bribery, corruption and tax evasion legislation.

People risks

High levels of skill and experience are required to support complex manufacturing, engineering and compliance processes. As such, the Group could be vulnerable to unpredicted staff losses. In response, Directors have ensured all employees participate in incentive schemes and made changes to remuneration and benefits to enable favourable comparison to the market. Opportunities are created for training, development and promotion and to mitigate the risk of an ageing workforce the Group has one of the largest apprentice level intakes in the Yorkshire region.

Supply Chain risks

Availability of scrap steel, alloys and other consumables alongside fluctuations in global steel pricing present both operational and profitability risk. The Group maintains a safety stock of input material derived from waste product from a variety of steel consuming industries to ensure continuity of supply. In addition, the manufacturing process is designed to allow for secondary steel production on site, supplementing external supplies of materials.

Energy cost and security present a risk to the Group through fluctuations in usage and price rates often driven by external geo-political factors. Policies and procedures are in place to both restrict inefficient energy consumption and to secure forward pricing through hedging contracts.

Sheffield Forgemasters Engineering Limited

Strategic Report (continued)

Section 172(1) Statement (continued)

Financial risks

Credit risk of commercial customers failing to meet contractual obligations is mitigated by pre-contract screening, strict credit control and insurance where required, although many Defence contracts are inherently lower risk due to the way they are funded. Whilst the change of ownership has secured recapitalisation funding a working capital facility is also maintained to ensure day-to-day liquidity but has not been utilised in recent periods.

Changes in the company's tax status or relevant legislation pose a risk to financial performance. These changes are constantly monitored and professional tax advisors are engaged to ensure understanding and compliance.

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

Gary Nutter

Gary Nutter (Dec 8, 2025 18:16:07 GMT)

Gary Nutter

Chief Executive Officer

8 December 2025

Sheffield Forgemasters Engineering Limited

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2025.

Directors

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

Sir Tim Fraser, KCB – Non-Executive Director
Gary Nutter – Chief Executive Officer
Gareth Barker – Chief Operating Officer
Amy Grey – Chief Financial Officer (resigned 31 December 2024)
T Patrick Davison – Chief Financial Officer (appointed 2 June 2025)

Norman Bone – Non-Executive Director
Simon Patrick Butcher – Non-Executive Director
Julie Colgan – Non-Executive Director
Andrew McNaughton – Non-Executive Director

Directors' interests

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

Result and dividends

The profit for the period, before taxation, was £0.6m (2024 as restated: £5.0m loss). The Directors have not declared the payment of a dividend for the year ended 31 March 2025 (2024: £nil).

Going Concern

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

- The order book for the next two years;
- The Company has a strong competitive position and unique manufacturing capabilities;
- The Company has a customer base drawn from a range of end-user markets;
- The Company has a track record of retaining key staff and has no significant pending litigation or fines;
- 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 2029; and
- The ongoing impact of the Russia-Ukraine conflict, the increased rate of inflation and energy and its impact on elements of the Company'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 for Defence and commercial customers; and
- Impact of cost base inflation and further escalation of energy costs.

Sheffield Forgemasters Engineering Limited

Directors' report (continued)

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

On this basis, the Directors concluded that the Company has sufficient financial resource to meet 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 2025.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, considering the aptitudes and abilities of the individual concerned. Where employees become disabled, the Company makes every effort to continue their employment. It is policy of the Company 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 Company to engaging with employees, customers and suppliers is detailed in the Strategic report on pages 6 and 7. The Company involves employees in matters directly relating to their employment and working conditions, endeavouring to maintain a sense of purpose aligned with the Company's strategy and objectives. The Directors regularly review the effectiveness of employee communications and improvements are implemented as required.

Training and development are an integral part of the Company'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.

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:



T Patrick Davison
Chief Financial Officer
8 December 2025

Sheffield Forgemasters Engineering 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 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 Company and of their profit or loss for that period. In preparing the 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 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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the 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 Company 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:



T Patrick Davison
Chief Financial Officer
8 December 2025

Sheffield Forgemasters Engineering Limited

Independent Auditor's Report to the Members of Sheffield Forgemasters Engineering Limited

Opinion

We have audited the financial statements of Sheffield Forgemasters Engineering Limited (the 'company') for the year ended 31 March 2025 which comprise the Profit and loss account and other comprehensive income, the Balance sheet, the Statement of changes in equity and notes to the financial statements, including 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 company's affairs as at 31 March 2025, and of its profit for the year then ended;
- 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 Auditor responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Sheffield Forgemasters Engineering Limited

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and 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, 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 set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Sheffield Forgemasters Engineering Limited

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

Auditor 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

Sheffield Forgemasters Engineering Limited

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

A further description of our responsibilities is available on the FRC's website at: <https://www.frc.org.uk/auditors/audit-assurance/auditor-s-responsibilities-for-the-audit-of-the-fi/description-of-the-auditor%E2%80%99s-responsibilities-for>. This description forms part of our auditor's report.

Use of our report

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



Matt Osbourne (Dec 8, 2025 13:26:45 GMT)

Matthew Osbourne (Senior Statutory Auditor)

for and on behalf of
Armstrong Watson Audit Limited
Chartered Accountants and Statutory Auditors
Leeds
8 December 2025

Sheffield Forgemasters Engineering Limited

Profit and loss account and other comprehensive income for the year ended 31 March 2025

	Note	2025 £'000	2024 as restated £'000
Turnover	4	114,420	94,939
Cost of sales		(93,121)	(78,961)
Gross profit		21,299	15,978
Distribution costs		(2,232)	(2,342)
Administrative expenses		(25,830)	(22,064)
Other operating income	6	5,538	3,217
Operating loss	5	(1,225)	(5,211)
Interest receivable and similar income	8	1,961	488
Interest payable and similar expenses	8	(175)	(266)
Profit / (Loss) before taxation		561	(4,989)
Tax charge	9	(262)	(381)
Profit for the financial year and total comprehensive Profit / (Loss)		299	(5,370)

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

The Company 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 Engineering Limited

Balance sheet as at 31 March 2025

	Note	2025 £'000	2024 as restated £'000
Fixed assets			
Tangible assets	10	341,792	204,195
Total fixed assets		341,792	204,195
Current assets			
Inventories	11	9,826	13,155
Debtors	12	48,471	58,070
Cash at bank and in hand		93,735	69,157
Total current assets		152,032	140,382
Creditors: amounts falling due within one year	14	(79,451)	(87,749)
Net current assets		72,581	52,633
Total assets less current liabilities		414,373	256,828
Creditors: amounts falling due after more than one year	15	(27,092)	(30,201)
Provisions for other liabilities	16	(4,497)	(3,142)
Net assets		382,784	223,485
Capital and reserves			
Called-up share capital	18	361	202
Share premium account	18	361,114	202,273
Retained earnings	18	21,309	21,010
Total equity		382,784	223,485

The notes on pages 20 to 43 are an integral part of these financial statements.

The financial statements on pages 17 to 43 were approved by the Board of Directors on 8 December 2025 and signed on their behalf by:



T Patrick Davison
Chief Financial Officer

Sheffield Forgemasters Engineering Limited

Statement of changes in equity

	Called-up share capital	Share premium account	Capital contribution reserve	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000
Balance as at 1 April 2023 as restated	79	78,996	23,554	2,826	105,455
Loss for the year	-	-	-	(5,370)	(5,370)
Total comprehensive loss for the year as restated	-	-	-	(5,370)	(5,370)
Transfer of realised profits	-	-	(23,554)	23,554	-
Issue of share capital	123	123,277	-	-	123,400
Total transactions recognised directly in equity	123	123,277	(23,554)	23,554	123,400
Balance as at 31 March 2024 and 1 April 2024 as restated	202	202,273	-	21,010	223,485
Profit for the year	-	-	-	299	299
Total comprehensive profit for the year	-	-	-	299	299
Issue of share capital	159	158,841	-	-	159,000
Total transactions recognised directly in equity	159	158,841	-	-	159,000
Balance as at 31 March 2025	361	361,114	-	21,309	382,784

Sheffield Forgemasters Engineering Limited

Notes to the financial statements

1 General information

Sheffield Forgemasters Engineering 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 2RX.

The nature of the Company'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.

Basis of preparation

The financial statements of Sheffield Forgemasters Engineering 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 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 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's parent undertaking, Sheffield Forgemasters International Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Sheffield Forgemasters International Limited are available to the public and may be obtained from Brightside Lane, Sheffield, S9 2RX.

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

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Going concern

The Directors must consider and determine whether the Company 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 Company serves; the position, actions and intentions of competitors; the customer base of the Company 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 Company.

The Ministry of Defence has provided a revolving credit facility with a limit of £15m and an expiry date of 31 December 2029 that will provide liquidity for the Company.

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 Company had net current assets of £72.6m at 31 March 2025. 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 Company with a cash balance of £93.7m at 31 March 2025.

On this basis, the Directors have concluded that the Company 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 2025.

Sheffield Forgemasters Engineering Limited

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. As a subsidiary of Sheffield Forgemasters International Limited, the Company has taken advantage of the following exemptions in its financial statements:

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

Foreign currency

The 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

Revenue is recognised in accordance with Section 23 of FRS 102, Revenue from Contracts with Customers. The business applies a number of methods to ensure adherence with Section 23. This is on the basis that the outcome of the contract can be estimated reliably, and it is probable that the economic benefits will flow to the company.

Revenue is measured at the fair value of consideration received or receivable and is recognised using the following methods:

- a) The percentage-of-completion method. This is where the stage of completion is determined by calculating the proportion of contract costs incurred to date, compared to the estimated total contract costs. Consideration is given to estimated production overrun to avoid revenue overstatements.
- b) Hours completed. This is where the contract defines a number of hours (and/or materials) to complete the contract, revenue is recognised on the number of hours undertaken but limited to the number of hours provided for in the contract.
- c) Finished goods/services basis. These contracts are typically very short term (less than 2-3 months) and revenue is recognised when the goods/service have finished production and where risks and ownership are deemed to be transferred to the customer.

Note: All contract costs are expensed as incurred.

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Loss provisions

If it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense in the profit and loss account.

Payments from customers against revenue recognised

Where revenue recognised is in excess of payments received, these are included in debtors as a sales accrual. Payments received in advance of revenue being earned are included in creditors as deferred income (noted as advanced payments in the balance sheet).

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.

Research and development (“R&D”) expenditure

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Research and development expenditure credits (“RDEC”)

Where applicable, the Company 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 Company 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 Company 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 Company 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 Company in independently administered funds.

Termination benefits

Termination benefits are recognised as an expense when the Company 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 Company 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.

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Annual bonus plan

The Company operates annual bonus plans for employees. An expense is recognised in the profit and loss account when the Company 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 buildings	50 years
Plant and machinery	4-15 years
Loose tools	2-7 years
Office equipment	3 years
Computer equipment	3 years

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.

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Impairment reviews

The Company 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 Company 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 they are 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 Company 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 Company 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.

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Government grants

Government grants, including deferred capital, are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to the grant and that the grant will be received. The Company 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.

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 Company.

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 Company has access to a working capital facility as detailed in note 14. The balance on this facility is recognised in creditors.

Sheffield Forgemasters Engineering Limited

2 Summary of significant accounting policies (continued)

Provisions and contingencies

Provisions

Provisions are recognised when the Company 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 expenditure 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 Company'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 Company 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.

Sheffield Forgemasters Engineering Limited

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 option dated forward 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 Company's derivatives are included in note 17.

The Company does not apply hedge accounting in respect of option dated forward foreign currency contracts held to manage the cash flow exposures of forecast transactions denominated in foreign currencies.

The Company does not recognise forward energy contracts at fair value as the contracts are entered into in accordance with the Company'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 Company 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 Company financial statements.

Sheffield Forgemasters Engineering Limited

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 Company's accounting policies

Impairment testing

Management has considered the requirements of IAS 36 Impairment of Assets in relation to the company's fixed assets, which primarily comprise of assets under construction that are not yet operational or generating economic benefits.

At the reporting date, the company's fixed assets remain under construction and are not yet in use. As such management has assessed whether there are any indicators of impairment and no such indicators have been identified. Accordingly, no impairment loss has been recognised.

Management will continue to monitor for any indicators of impairment at each reporting date and assess the recoverability of the carrying amounts once the assets become operational.

Key accounting estimates and assumptions

The Company 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.

Loss provision

The Company recognises revenue on long-term contracts as permitted under FRS102 Section 23 and will provide for any estimated losses. This requires management to estimate the total costs to complete each contract. These estimates may include expected costs of labour, materials, subcontractors and overheads. They are based on current project performance, known risks and historical trends, and are reviewed regularly. Due to the inherent uncertainty in forecasting future costs, actual outcomes may differ from these estimates. Changes in estimates are recognised in the period they arise accordingly.

Sheffield Forgemasters Engineering Limited

4 Turnover

Analysis of turnover by geography

	2025 £'000	2024 as restated £'000
United Kingdom	96,580	75,565
Rest of Europe	5,719	7,564
North America	10,723	8,133
Other	1,398	3,677
Total revenue	114,420	94,939

Analysis of turnover by category

	2025 £'000	2024 as restated £'000
Manufacture and sale of steel forgings, castings and ingots	114,179	94,518
Provision of consulting services	241	421
Total revenue	114,420	94,939

Sheffield Forgemasters Engineering Limited

5 Operating loss

Operating loss is stated after charging / (crediting):

	Note	2025 £'000	2024 £'000
(Profit)/loss on disposal of tangible assets	10	(6)	144
Operating lease charges	19	3,288	2,712
Foreign exchange losses		741	286
Research and development tax credits		(1,102)	(1,583)
Total fees payable to the auditor and its associates		145	123

Administrative expenses include £nil (2024: £22,000) of exceptional costs.

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

	2025 £'000	2024 £'000
Total audit fees and total auditor's remuneration	145	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 Sheffield Forgemasters International Group and its subsidiaries, are borne in their entirety by the Company on behalf of the Group.

Sheffield Forgemasters Engineering Limited

6 Other operating income

	Note	2025 £'000	2024 £'000
Grants relating to revenue recognised	14	418	47
Grants relating to assets recognised	14	65	65
Deferred capital released	14	3,069	3,069
Other items		1,986	36
Total other operating income		5,538	3,217

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

7 Employees and Directors

Employees

	2025 £'000	2024 £'000
Wages and salaries	32,080	28,342
Social security costs	2,926	2,514
Other pension costs	1,748	1,244
Employee costs charged to profit and loss	36,754	32,100

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

	2025 Number	2024 Number
Operational	440	436
Support services	258	205
Total	698	641

Sheffield Forgemasters Engineering Limited

7 Employees and Directors (continued)

Directors

The Directors' emoluments were as follows:

	2025	2024
	£'000	£'000
Aggregate remuneration	952	916
Other pension costs	40	51
Total	992	967

During the year, 3 Directors (2024: 3) were members of the Company's defined contribution schemes.

Highest paid Director

The highest paid Director's emoluments were as follows:

	2025	2024
	£'000	£'000
Aggregate remuneration	384	350
Other pension costs	17	35
Total	401	385

Key management compensation

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

Post-employment benefits

The Company 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 £1,748,000 (2024: £1,244,000) in relation to current year contributions.

The amount owed in respect of the defined contribution schemes at the year end was £381,000 (2024: £285,000).

Sheffield Forgemasters Engineering Limited

8 Net interest

	2025	2024
	£'000	£'000
Interest receivable and similar income:		
Bank interest received	(1,961)	(488)
Total interest receivable and similar income	(1,961)	(488)
Interest payable and similar expenses:		
Interest payable on secured loans	146	175
Losses on derivative financial instruments	29	91
Total interest payable and similar expenses	175	266
Net interest (income) / expense	(1,786)	(222)

Sheffield Forgemasters Engineering Limited

9 Taxation

Tax expense included in profit or loss

	2025	2024
	£'000	as restated £'000
Current tax		
UK Corporation tax on loss for the year	197	297
Adjustments in respect of prior periods	65	84
Total current tax	262	381
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	262	381

Reconciliation of tax charge

The tax assessed for the year is higher (2024: higher) than the standard rate of corporation tax in the UK of 25% (2024: 25%). The differences are explained below:

	2025	2024
	£'000	as restated £'000
Profit/(Loss) before tax	561	(5,370)
Loss multiplied by the standard rate of tax in the UK of 25% (2024: 25%)	140	(1,343)
Effects of:		
Expenses not deductible for tax purposes	46	5,049
Income not subject to tax	(364)	(500)
Adjustments in respect of prior periods	65	84
RDEC not provided	197	297
Movement in deferred tax asset not recognised	178	(3,206)
Tax charge for the year	262	381

Factors affecting future tax rate charges

There are no factors affecting future tax charges.

Sheffield Forgemasters Engineering Limited

10 Tangible assets

	Loose tools £'000	Land and buildings £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 April 2024	24,173	45,919	120,151	141,513	331,756
Transfers	-	2,710	16,534	(19,244)	-
Additions	1,894	18	2,085	140,794	144,791
Disposals	-	-	(1,545)	-	(1,545)
At 31 March 2025	26,067	48,647	137,225	263,063	475,002
Accumulated depreciation and impairment					
At 1 April 2024	14,992	11,518	101,051	-	127,561
Charge for the year	1,652	406	5,136	-	7,194
Disposals	-	-	(1,545)	-	(1,545)
At 31 March 2025	16,644	11,924	104,642	-	133,210
Net book amount					
At 31 March 2025	9,423	36,723	32,583	263,063	341,792
At 31 March 2024	9,181	34,401	19,100	141,513	204,195

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 (2024: £21,019,000).

11 Inventories

	2025 £'000	2024 as restated £'000
Raw materials	8,572	10,570
Work in progress	1,254	2,585
Total	9,826	13,155

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

Inventories are stated after provisions for impairment of £12,707,900 (2024 restated: £7,464,000), which is included within 'cost of sales'.

Sheffield Forgemasters Engineering Limited

12 Debtors

Amounts falling due within one year

	2025	2024
	£'000	as restated £'000
Trade debtors	31,543	34,250
Amounts owed by Group undertakings	2,187	2,187
Other debtors	696	1,971
Other taxation and social security	3,117	7,117
Prepayments and accrued income	10,928	12,545
Total	48,471	58,070

Trade debtors are stated after provisions for impairment of £432,000 (2024: £32,000).

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.

13 Deferred tax

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% (2024: 25%) consists of the following deferred tax assets:

	Provided	Provided	Unprovided	Unprovided
	2025	2024	2025	2024
	£'000	£'000	£'000	£'000
Other short-term timing differences	-	-	736	597
Tax losses carried forward	-	-	13,059	6,333
Total	-	-	13,795	6,930

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14 Creditors: amounts falling due within one year

	2025 £'000	2024 as restated £'000
Trade creditors	5,159	19,935
Other taxation and social security	890	783
Other creditors	593	2,707
Secured loan	-	-
Grants relating to assets	65	65
Deferred capital	3,045	3,070
Deferred income	46,978	33,940
Derivative financial instruments	113	143
Accruals	22,608	27,106
Total	79,451	87,749

Secured loan

The Company 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 (2024: £nil). The facility has a borrowing limit of £15m and is due for renewal at 31 December 2029. The facility is secured by fixed and floating charges over the assets of the Company. 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.

15 Creditors: amounts falling due after more than one year

	2025 £'000	2024 £'000
Grants relating to assets	168	232
Deferred capital (see note 14)	26,924	29,969
Total	27,092	30,201

Sheffield Forgemasters Engineering Limited

16 Provisions for other liabilities

The Company had the following provisions during the year:

	Other £'000
At 1 April 2024 as restated	3,142
Released in the year	-
Additional provisions	1,771
Utilised in the year	(416)
At 31 March 2025	4,497

Included within other provisions are Customer Complaints provision of £917,630 (2024 restated: £503,650) and Loss-making contracts provision of £3,579,640 (2024 restated: £2,638,160). It is expected that these provisions will be utilised over the next two years.

17 Financial instruments

The Company had the following financial instruments:

	Note	2025 £'000	2024 £'000
Financial liabilities measured at fair value through profit or loss			
Derivative financial instruments	14	113	143
		113	143

Derivative financial instruments – option dated forward foreign currency contracts

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 a liability of £113,000 (2024: £143,000 liability).

Derivative financial instruments – forward energy contracts

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

As the contracts are entered into in accordance with the Company'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

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18 Share capital and other reserves

Share capital and share premium

Ordinary shares of one pound (£1.00) each. Allotted, called-up and fully paid.

	Number	Par value £	Premium £
At 1 April 2024	202,476	202,476	202,272,525
Issued on 9 July 2024	16,000	16,000	15,984,000
Issued on 24 September 2024	7,000	7,000	6,993,000
Issued on 4 October 2024	15,000	15,000	14,985,000
Issued on 12 November 2024	8,000	8,000	7,992,000
Issued on 16 December 2024	28,000	28,000	27,972,000
Issued on 17 January 2025	16,000	16,000	15,984,000
Issued on 24 February 2025	19,000	19,000	18,981,000
Issued on 18 March 2025	10,000	10,000	9,990,000
Issued on 25 March 2025	40,000	40,000	39,960,000
At 31 March 2025	361,476	361,476	361,113,525

Throughout the year the parent company, Sheffield Forgemasters International Limited, 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.

Sheffield Forgemasters Engineering Limited

19 Capital and other commitments

At 31 March the Company had the following capital commitments:

	2025	2024
	£'000	£'000
Contracts for future capital expenditure not provided in the financial statements – property, plant and equipment	309,724	286,312
Total	309,724	286,312

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

	2025	2024
	£'000	£'000
Payments due		
Not later than one year	512	186
Later than one year and not later than five years	683	122
Later than five years	-	-
Total	1,195	308

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:

	2025	2024
	£'000	£'000
Payments receivable		
Not later than one year	178	178
Later than one year and not later than five years	178	370
Later than five years	-	-
Total	356	548

The Company had no other off-balance sheet arrangements.

20 Related party transactions

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

The Company has taken advantage of the exemption allowed by FRS 102, to not disclose transactions with entities that are part of the Sheffield Forgemasters International Limited Group, on the grounds that it is a wholly owned subsidiary.

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

Sheffield Forgemasters Engineering Limited

21 Controlling party

The immediate parent undertaking and the smallest and largest group to consolidated these financial statements is Sheffield Forgemasters International Limited. Copies of the Sheffield Forgemasters International Limited consolidated financial statements can be obtained from the Company Secretary at Brightside Lane, Sheffield, S9 2RX.

The immediate parent undertaking, Sheffield Forgemasters International Limited, is owned by The Secretary of State for Defence of Great Britain and Northern Ireland ("The Secretary of State"). Accordingly, the ultimate controlling party is The Secretary of State.

22 Events after the reporting period

There have been no events subsequent to 31 March 2025 that require further disclosure in these financial statements.

23 Prior period adjustment

In the period, the group reviewed and amended the revenue accounting policy to better reflect value earned and the transfer of goods and services to customers over time.

This change also supports the pending changes to FRS102, Revenue from Contracts with Customers due to be implemented in the 2027 financial year.

During this period, the revenue policy changed and is now in line with the policy as detailed in note 2.

In accordance with Section 10 of FRS 102 (Accounting Policies, Estimates and Errors), the change in accounting policy has been retrospectively applied to ensure consistency and comparability across accounting periods. See below for key balances impacted.

	2024
	£'000
Retained earnings as previously reported	26,673
Retained earnings brought forward	(293)
Retained earnings brought forward as restated	26,380
Retained earnings: loss for the year as previously reported	(4,078)
Adjustments arising:	
WIP	(6,988)
Accrued income	(1,225)
Progress payments	3,019
NRV provision	4,179
Loss making contracts provision	(277)
Retained earnings: loss for the year as restated	(5,370)
Retained earnings as restated	21,010

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23 Prior period adjustment (continued)

Reconciliation of net profit/(loss) for the previous financial period	2024 £'000
Loss as previously reported	(4,078)
Adjustments arising:	
Turnover	(5,163)
Cost of Sales	(31)
NRV provision	4,179
Loss making contracts provision	(277)
Net loss as restated	<u>(5,370)</u>

Notes to restatement

WIP

Under the new policy, as performance obligations are satisfied over time WIP balances are adjusted to reflect work performed by releasing costs incurred to cost of sales. Under the former accounting policy, the accumulated WIP value was released once the contract was fully completed.

Accrued income

Accrued income balances arise due to revenue now being recognised as performance obligations are satisfied. Accrued income is recognised in line with the stage of completion of the contract, reflecting SFEL's right to consideration for the work performed to date.

Progress payments

Under the new policy, as performance obligations are satisfied over time progress payments are recognised in line with the stage of completion of the contract. Under the former accounting policy, the full progress payments balance was released once the contract was fully completed.

Loss making contracts provision

Under FRS 102, Revenue from Contracts with Customers, if it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately through the onerous loss provision.

NRV provision

Due to the recognition of the onerous loss provision, the former NRV provision is no longer required.