Babcock Land Defence Limited

Annual report and financial statements

for the year ended 31 March 2022

Registered number: **09329025**

Directors

L Atkinson
N Borrett
J Cohen
S Doherty
J Rayson
C Spicer

Company Secretary

Babcock Corporate Secretaries Limited

Registered Number
09329025

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditor

Deloitte LLP
1 New Street Square
London
EC4A 4HQ

CONTENTS

Strategic report for the year ended 31 March 2022

The directors present their Strategic report on the Company for the year ended 31 March 2022.

Principal activities

The Company is engaged in the maintenance of military vehicles, the provision of vehicles, management of the Ministry of Defence (MoD) estate and support to training activities. During the year, the company's principal contracts were the Defence Support Group contract ("DSG contract") with the MoD for the maintenance, repair, overhaul and storage of military vehicles and light weapons for the British Armed Forces and providing training for the Royal School of Military Engineering (RSME). From the 1 April 2021 the company provided the provision of Fleet, Procurement and Supply Chain Management Services for the MoD (Phoenix), and provision of over 500 assets to the MoD via Phoenix acting as Procurement Agent (Contract Hire). From 1 November 2021, the company provided technical training for MoD (EMTC) and from 1 January 2022, provided training of management, instructor and developer personnel to deliver Falcon training (WANT).

Review of the business

	Year ended 31 March 2022	Year ended 31 March 2021
	£000	£000
		**Restated*
Revenue	**232,296**	152,491
Profit/(Loss) for the financial year before tax	**19,230**	(145,787)
Total shareholders' deficit	**(49,023)**	(81,489)

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

In the prior year the company passed an shareholders' special resolution, effective from 16 July 2020, to change the name of the Company (Babcock DSG Limited) to Babcock Land Defence Limited ("Babcock Land Defence") as part of a rationalisation initiative which will ultimately include the novation of all Babcock Land Limited contracts into the renamed Company.

Trading across all of the contracts has been in line with expectation and held up well coming out of a challenging year despite COVID-19.

The company had a change in the Auditors of the company in FY22, moving from PWC to Deloitte.

Effective from 1 April 2021 the Phoenix and Contract Hire contracts were novated from Babcock Land Limited to Babcock Land Defence Limited. This included all the assets and liabilities of the business for a consideration of £547,758, which was equal to the net asset valuation at the date of transfer, See note 24. However, after this there was statutory year end 31 March 2021 adjustments which affected the net asset valuation, leading to a loss on acquisition of the contracts from a statutory accounts perspective in year ended 31 March 2022.

Effective from 1 November 2021 the EMTC contract commenced trading in Babcock Land Defence Limited. The predecessor to this contract was previously traded through Babcock Land Limited.

Effective from 1 January 2022 the WANT contract commenced trading in Babcock Land Defence Limited. The predecessor to this contract was previously traded through Babcock Land Limited.

Both EMTC and WANT contracts were part of a wider strategic project to consolidate and rationalise contracts into one trading entity.

The Company continued in the year to invest and roll out its new SAP ERP system which enabled the contracts to novate and commence in year. The SAP ERP system continues to drive further efficiencies in its vehicle maintenance and spares procurement activities as well across other parts of the business.

Strategic report for the year ended 31 March 2022 *(continued)*

Principal risks and uncertainties
The Company's ultimate controlling parent is Babcock International Group Plc. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group Plc. The principal risks and uncertainties of Babcock International Group Plc are discussed in its Annual Report for the year ended 31 March 2022, which does not form part of this report.

The key risks and uncertainties affecting the Company are considered to be the performance of contractual obligations, achieving extensions to existing contracts, political and regulatory environment. The Directors manage this risk by meeting on a regular basis to discuss these risks.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 74 to 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The growth and performance of the Company, a division of Babcock International Group PLC, which includes this Company, is discussed on pages 46 to 47 of the annual report of Babcock International Group PLC, which does not form part of this report.

Management continues to use all relevant financial information in operating the company's contracts and in controlling its cost base. Individual contracts have key performance indicators (KPIs) integrated into their terms and conditions. These KPIs are normally based on two basic principles, being response and availability. Response means how quickly the company meets the needs of customers and their assets and infrastructure when those assets become unserviceable. The principle of availability typically measures the amount of time that a customer asset or fleet is unserviceable. These KPIs are at the heart of the company's activities and customer satisfaction and as such they are monitored by management on a regular basis.

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

We have identified the following financial and non-financial key performance indicators (KPI) to measure the success of our business and strategy:

	2022	2021	
Revenue Growth*	**55%**	25%	Increase in revenue when compared to that of the previous year.
Operating Return on Revenue (ORR)*	**9%**	(96%)	Operating profit/(loss) expressed as a percentage of revenue.
Order Book	**£387m**	£392m	Includes total value of signed contracts and prudent estimate of value of framework contracts, based on ongoing assessment of expected contract values.
Total injuries rate per 200,000 hours worked (FY21 – per 100,000 hours worked)	**1.87**	2.68	Health and Safety is a core value for the Company. The data includes all reported injuries.

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

Strategic report for the year ended 31 March 2022 *(continued)*

Key performance indicators (continued)

Revenue Growth
Revenue has mainly increased year on year due to the novated contracts and new contracts which began trading in Babcock Land Defence Limited during the year ended 31 March 2022. The remaining increase is driven by growth on existing contracts.

Operating Return on Revenue
The loss in the prior year was driven largely by the exceptional cost of sales items detailed in the income statement. The margin has also improved year on year due to the novated and new contracts which began trading in Babcock Land Defence Limited during the year ended 31 March 2022 and growth secured in existing contracts.

Order Book
The orderbook is consistent year on year, where a reduction in the orderbook of long-term contract accounted contracts due to the passing of time is offset by the novation of and new contracts which began trading in Babcock Land Defence Limited during the year ended 31 March 2022.

Total injuries rate
New ways of working evolved out of COVID which have led to a reduction in handling injuries. A new Group event reporting tool was introduced during FY21, which has led to better reporting of incidents and therefore actions resulting in changes to ways of working being taken off the back of the improvement in data capture. More safety sessions are being held to discuss incidents and near misses, with emphasis on sharing learnings.

S172 (1) statement and stakeholder engagement

This statement contains an overview of how the Directors have performed their duty to promote the success of the Company as set out in Section 172(1) of the Companies Act 2006. That section requires a director of the Company to have acted in a way that they consider, in good faith, would most likely promote the success of the Company for the benefit of the shareholders. In doing this, the director must have regard, amongst other matters, to:

a) the likely consequences of any decision in the long term,
b) the interests of the Company's employees,
c) the need to foster the Company's business relationships with suppliers, customers, and others,
d) the impact of the Company's operations on the community and the environment,
e) the desirability of the Company maintaining a reputation for high standards of business conduct, and
f) the need to act fairly between members of the Company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53 and 101 of the annual report of Babcock International Group PLC, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company’s culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) statement and stakeholder engagement *(continued)*

and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

What matters to them

- Safety
- Operational excellence
- Innovation and expertise
- Reliability
- Value for money
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

How the Company engages

- Regular ongoing relationship engagement at all levels
- Contract negotiation and execution
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Investors

Why they matter to us

The support of our equity and debt investors and continued access to capital is vital to the long-term success of the Company. We work to ensure that we provide clear and transparent information to the market which allows investors and potential investors to make informed decisions, via market updates, information published on our website, appropriate access to management and an active Investor Relations and Treasury team.

What matters to them

- Shareholder value
- Financial and operational performance
- Strategy and business development
- Capital structure
- Dividend policy
- Transparency of communication
- Governance and management
- Sustainability strategy

How the Company engages

- Annual Report and Financial Statements
- Results materials and presentations
- Investor relations team
- Treasury team with banks and noteholders and credit rating agencies
- Dedicated investor section on Babcock website
- Chair engagement with top shareholders
- Consultation with large shareholders on remuneration policy
- Investor site visits
- Stock exchange announcements and press releases

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) statement and stakeholder engagement *(continued)*

Suppliers

Why they matter to us

To support our business operations and strategy, we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and, by working collaboratively with suppliers, we can ensure continuity of supply, minimise risk and bring innovative solutions to our customer. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International Group PLC which does not form part of this report.

What matters to them

- Good working relationships
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How the Company engages

- Regular open and honest two-way communications
- Supplier Code of Conduct
- Supplier conferences, workshops and ‘lunch and learn’ sessions
- Supplier due diligence
- Involvement in Security supply chain development programme SC21

Regulators

Why they matter to us

We manage complex assets in highly regulated sectors. We are committed to providing safe and effective operations. We must maintain positive and constructive relationships with regulators to be able to operate, to help shape policy in our markets and to position for future opportunities.

What matters to them

- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Sustainability
- Site-specific issues

How the Company engages

- Regular engagement (national, local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) statement and stakeholder engagement *(continued)*

Employees

Why they matter to us

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Group-wide People Strategy as described on pages 19 and 63 - 66 of the annual report of Babcock International Group PLC which does not form part of this report.

What matters to them

- Remuneration and reward
- Professional development
- The Company's aims, goals, priorities and reputation
- Employee engagement
- Health, safety and wellbeing
- An empowering culture
- Inclusion and diversity
- Our ESG agenda
- Employee networks

How the Company engages

- Employee forums and meetings
- Global engagement platforms
- Weekly CEO and senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Regular internal updates
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training
- Access to independent whistleblowing process
- Senior management and board visits
- Free confidential employee support helpline

Communities

Why they matter to us

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities and helping them rebuild following COVID 19. We have a responsibility to ensure that we support the communities in which we operate, both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy. The Company's major sites of operation make it one of the largest employers in the local areas and it remains important for us to add value to these communities.

What matters to them

- Employment and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities

Strategic report for the year ended 31 March 2022 *(continued)*

S172(1) statement and stakeholder engagement *(continued)*

- Sustainability and the local environment
- Support for armed forces community
- Community engagement

How the Company engages

- Sponsorship and donations
- Employee volunteering
- University partnerships
- STEM Ambassadors
- Employer of service leavers, veterans and reserves
- Engagement with local community programmes

Sustainability is an integral part of our corporate strategy and how we do business, and it underpins our corporate Purpose: to create a safe and secure world, together. We have done a lot in the past year to drive our sustainability programme across the Group, ensure progress towards our corporate commitments and deliver our five ESG priorities shown below.

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets, and operations by 2040.

2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.

3. We will ensure the safety and wellbeing of all our people.

4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.

5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

These activities form part of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

This report was approved by the board on 19 December 2023 and signed on its behalf

L Atkinson
Director

Directors' report for the year ended 31 March 2022

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2022.

Dividends
No dividends were declared or paid in the year (2021: £nil).

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

L Atkinson
N Borrett
J Cohen
J Davies (resigned 28 June 2021)
S Doherty (appointed 31 May 2022)
T Newman (appointed 29 June 2021, resigned 24 May 2023)
J Rayson (appointed 12 July 2023)
C Spicer (appointed 12 July 2023)
R Taylor (resigned 31 October 2021)
I Urquhart (resigned 31 May 2022)
S West (resigned 1 July 2022)
S White (resigned 30 September 2021)

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

Future developments
The directors are confident about the future trading prospects of the Company considering its current strong order book position and other market opportunities. Following the Strategic Integrated Review in March 2021, the DSG contract's future volumes were expected to decrease and were assessed as part of the CPBS review. However, this has been the opposite in the year and DSG continues to grow.

There has been early engagement with the customer on the way forward for the DSG contract post 2025.

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

As the company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The company is in a net liabilities position of £49,023,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the company has sufficient liquidity to do so and the company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

Directors' report for the year ended 31 March 2022 *(continued)*

Financial risk management
The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discuss in detail with the annual report for Babcock International Group Plc, which does not form part of this report.

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

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

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

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

Energy and carbon reporting
The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2022 of its ultimate parent, Babcock International Group Plc, which does not form part of this report.

Engagement with suppliers and customers
Engagement with suppliers and customers has been considered in the Strategic Report on page 5 & 7.

Employees
The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 64 and 107 of the annual report for Babcock International Group Plc, which does not form part of this report.

Engagement with UK employees has been considered on page 8 of the Strategic Report.

Directors' report for the year ended 31 March 2022 *(continued)*

Environment
The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Qualifying third party indemnity provisions
Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2012 and remain in force.

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

Statement of disclosure of information to auditors
Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

This confirmation is given and should be interpreted in accordance with the provisions of the s418 of the Companies Act 2006.

Appointment of auditors
At the 2022 Annual General Meeting of Babcock International Group plc, the Company's ultimate parent company, Deloitte LLP were re-appointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 19 December 2023 and signed on its behalf by

L Atkinson
Director

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors’ report to the directors of Babcock Land Defence Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Babcock Land Defence Limited (the ‘company’):

- give a true and fair view of the state of the company’s affairs as at 31 March 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 “Reduced Disclosure Framework”; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 “Reduced Disclosure Framework” (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council’s (the ‘FRC’s’) Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this

Independent auditors' report to the directors of Babcock Land Defence Limited *(continued)*

Other Information *(continued)*

gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report**.**

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

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

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

Independent auditors' report to the directors of Babcock Land Defence Limited *(continued)*

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

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

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

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Making inquiries of contract project teams and other personnel to obtain an understanding of the performance of the project throughout the year and at year-end;
- Analysing historical contract performance and understanding the reason for in-year movements or changes;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract and associated contingencies. We considered historical forecasting accuracy of costs, compared to similar programmes, and challenged future cost expectations with reference to those data points;
- Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- Examining external evidence to assess contract status and estimation of variable consideration (including associated recoverability of contract balances), such as customer correspondence and for certain contracts meeting with the customer directly;
- Enquiring with in-house legal counsel regarding contract related litigation and claims; and
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

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

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

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Independent auditors' report to the directors of Babcock Land Defence Limited *(continued)*

Matters on which we are required to report by exception

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

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

Use of our report

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

Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
19 December 2023

Income statement
for the year ended 31 March 2022

	Note	2022	2021
		£000	£000
			Restated
Revenue	4	**232,296**	152,491
Cost of revenue - excluding amortisation of contract intangible & impairment of assets		**(196,634)**	(207,740)
Cost of revenue - impairment of contract intangible		**-**	(65,661)
Cost of revenue - amortisation of contract intangible		**-**	(16,514)
Cost of revenue - impairment of other assets		**-**	(6,171)
Total cost of revenue		**(196,634)**	(296,086)
Gross profit/(loss)		**35,662**	(143,595)
Administrative expenses		**(6,431)**	(2,191)
Administrative expenses - exceptional		**(9,094)**	-
Total administrative expenses		**(15,525)**	(2,191)
Operating profit/(loss)	5	**20,137**	(145,786)
Finance costs	6	**(982)**	(378)
Other finance income - pensions	21	**75**	286
Profit/(loss) before taxation		**19,230**	(145,878)
Income tax (expense)/benefit	10	**(730)**	12,459
Profit/(loss) for the financial year		**18,500**	(133,419)

The notes on page 22 to 58 form part of these financial statements.

All of the above results derive from continuing operations.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

Statement of comprehensive income

for the year ended 31 March 2022

	2022	2021
	£000	£000
		Restated
Profit/(loss) for the financial year	**18,500**	(133,419)
Gain/(loss) on re-measurement of net defined benefit obligation	**19,032**	(8,601)
Tax (charge)/credit on net defined benefit obligation	**(5,066)**	3,662
	13,966	(4,939)
Total comprehensive income/(expense) for the financial year	**32,466**	(138,358)

*In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

Statement of financial position

As at 31 March 2022

	Note	2022 £000	2021 £000 *Restated*
Non Current Assets			
Intangible assets	11	**2,105**	2,178
Tangible fixed assets	12	**270**	368
Right-of-use assets	13	**16,007**	877
Trade and other receivables	16	**40,884**	10,884
Deferred tax asset	10	**-**	1,246
		59,266	15,553
Current assets			
Inventories	15	**7,624**	9,071
Pension scheme surplus	21	**24,167**	1,840
Trade and other receivables	16	**64,779**	25,852
Cash and cash equivalents		**-**	48,708
		96,570	85,471
Current liabilities			
Trade and other payables	17	**(134,621)**	(168,734)
Lease Liabilities	13	**(5,195)**	(1,892)
Cash and cash equivalents		**(39,838)**	-
Net current liabilities		**(83,084)**	(85,155)
Total assets less current liabilities		**(23,818)**	(69,603)
Non-current liabilities			
Lease liabilities	13	**(12,220)**	(1,412)
Deferred tax liability	10	**(4,549)**	-
Provisions for liabilities	18	**(8,436)**	(10,474)
Net liabilities		**(49,023)**	(81,489)
Equity			
Called up share capital	19	-	-
Share premium account	19	**47,619**	47,619
Retained accumulated Losses		**(96,642)**	(129,108)
Total shareholders' funds		**(49,023)**	(81,489)

*The notes on pages 22 to 58 are an integral part of these financial statements.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

The financial statements on pages 18 to 58 were approved by the board of Directors on 19 December 2023 and signed on its behalf by:

L Atkinson
Director

Statement of changes in equity

As at 31 March 2022

	Called up share capital account	Share premium account	(Accumulated losses) / Retained earnings	Total shareholders' funds
	£000	£000	£000	£000
At 1 April 2020 (previously reported)	**-**	**47,619**	**6,747**	**54,366**
Prior year restatement (Note 22)*	-	-	(3,926)	(3,926)
At 1 April 2020 (restated)	**-**	**47,619**	**2,821**	**50,440**
Loss for the financial year (restated – Note 22)*	-	-	(133,419)	(133,419)
Other comprehensive expense (restated – Note 22)*	-	-	(4,938)	(4,938)
Capital contribution from parent	-	-	6,428	6,428
At 31 March 2021 restated	**-**	**47,619**	**(129,108)**	**(81,489)**
Profit for the financial year	-	-	18,500	18,500
Other comprehensive income	-	-	13,966	13,966
Total comprehensive income	**-**	**-**	**32,467**	**32,467**
At 31 March 2022	**-**	**47,619**	**(96,642)**	**(49,023)**

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in Note 22.

Notes to the financial statements

1 General Information

Babcock Land Defence Limited (the Company) is a private company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

Its ultimate controlling party is disclosed in note 27. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of 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.

Basis of preparation

These financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework (FRS 101)'. The Company applies the recognition, measurement and disclosure requirements in accordance with the international accounting standards and FRS 101, but makes amendments where necessary in order to comply with the Companies Act 2006.

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions has been taken:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
b) IFRS 7, 'Financial instruments: Disclosures'
c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
d) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
e) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.
f) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
   - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
   - paragraph 73(e) of IAS 16 Property, plant, and equipment; and
   - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
g) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
h) IAS 7, 'Statement of cash flows'
i) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
j) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
k) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
l) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Basis of preparation *(continued)*
The Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group PLC, a company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual and not as a group.

The financial statements have been prepared under the historical cost convention, as modification by the revaluation of relevant financial assets and financial liabilities (including derivative instruments).

Adoption of new and revised standards
There are no amendments to accounting standards that are effective for the year ended 31 March 2022 that have a material impact on the company's financial statements.

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net liabilities position of £49,023,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

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

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

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

(c) Allocation of contract price to performance obligations
Given the bespoke nature of many of the goods and services the Company provides, standalone selling prices are generally not observable and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin. This amount would be the standalone selling price of each performance obligation if contracted with a customer separately.

(d) Revenue and profit recognition
Performance obligations are satisfied, and revenue recognised, as control of goods and services is transferred to the customer. Control can be transferred at a point in time or over time and the Company determines, for each performance obligation, whether it is satisfied over time or at a point in time.

Revenue recognised over time
Performance obligations are satisfied over time if any of the following criteria are satisfied:

- the customer simultaneously receives and consumes the benefits of the Company's performance as it performs; or
- the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for work done; or
- the Company's performance creates or enhances an asset controlled by the customer.

Typical performance obligations in the Company's contracts that are recognised over time include the delivery of services (such as maintenance, engineering and provision of fleet), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure Babcock's effort in satisfying the applicable performance obligations. Costs are included in the measurement of progress towards satisfying the performance obligation to the extent that there is a direct relationship between the input and satisfaction of the performance obligation. For contracts where costs incurred is not deemed to be the most appropriate measure, the Company uses time elapsed to measure satisfaction of the performance obligation.

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the value of the goods or services rendered by the Company exceed payments, a contract asset is recognised. If payments exceed the value of the goods or services rendered, a contract liability is recognised. See section (h) for further details on how contract assets and liabilities are recognised.

Revenue recognised at a point in time
If control of the goods or services is not transferred to the customer over time, then revenue is recognised at the point in time that control is transferred to the customer.

Point in time recognition mainly applies to sale of goods. Control typically transfers to the customer when the customer has legal title to the goods and this is usually coincident with delivery of the goods to the customer and right to receive payment by the Company.

In the case of training services, control is deemed to transfer to the customer when the service is performed.

Assessment of contract profitability
Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outturn assessments are carried out on a contract-by-contract basis, including consideration of technical and other risks, by suitably qualified and experienced personnel and the assessments of all significant contracts are subject to review and challenge.

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

If a contract is deemed to be loss making the present obligation is recognised and measured as provisions. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations
The Company's contracts are often amended for changes in the customers' requirements. Contract modifications can relate to changes in both contract scope and price arising in the ordinary course of delivering contracts, which are referred to as contract variations. Such variations may arise as a result of customer requests or instructions or from requests from the Company in response to matters arising during the delivery of contracts. For example, some contracts include the requirement to conduct surveys and to report on or to recommend additional work as required. Some contracts may require the Company to proceed with variations and to agree pricing subsequently. See further detail on accounting for contract modifications below.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Contract modifications can also refer to changes in price only, with no change in scope, where there is a difference of view or dispute in relation to interpretation of contracts.

These contract claims and variations are considered to be modifications as referred to in paragraph 18 of IFRS 15.

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

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

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

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

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

(f) Costs of obtaining a contract
Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset. These costs are capitalised as an asset after the point that it can be reliably expected that a contract will be obtained. The costs are capitalised as an asset in capitalised contract costs and amortised to cost of revenue on a typically straight-line basis consistent with the transfer to the customer of the goods and services to which the asset relates, provided that the contract is expected to result in future net cash inflows.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(g) Costs to fulfil a contract
Post contract award but pre contract operational start-up costs which satisfy the criteria for capitalisation under another standard, such as property, plant and equipment (IAS 16) or intangible assets (IAS 38), are accounted for in accordance with those standards. Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

i. the costs relate directly to a contract or to an anticipated contract that can be specifically identified;
ii. the costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
iii. the costs are expected to be recovered.

Costs of recruiting or training staff are expensed as incurred.

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

(h) Contract assets and liabilities
Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Principal versus Agent considerations
The Company's contracts include performance obligations in relation to procurement activity undertaken on behalf of customers at low or nil margin, together with other performance obligations. For such procurement activity, management exercises judgement in the consideration of principal versus agent based on an assessment as to whether the Company controls goods or services prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a contract by contract, basis. The balances associated with these performance obligations are presented gross in the balance sheet with the amounts payable to suppliers presented as accruals and the equivalent amounts recoverable from the customer presented as contract assets.

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

a) Acquired intangibles

The acquired contract intangible is the estimated fair value at the date of acquisition from the MoD of customer relationships which are contractual, represented by the value of the acquired order book.

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation period of 10 years represents the length of the contract in this case. The carrying value of the

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Intangible assets *(continued)*
acquired intangibles is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less costs to sell or value in use.

b) Computer software

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

Computer software is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the computer software may not be recoverable.

c) Development costs

Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditure is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit.

Property, plant, and equipment
Property, plant, and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant, and equipment over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Plant and equipment	6.6% to 33.3%

Property, plant, and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Investments
Fixed asset investments are stated at cost less accumulated impairment losses.

Leases

The Company as lessee
For all leases in which the Company is a lessee (other than those meeting the criteria detailed below), the Company recognises a right of use asset and corresponding lease liability at commencement of the lease. The lease liability is the present value of future lease payments discounted at the rate implicit in the lease, if available, or the applicable incremental borrowing rate. The incremental borrowing rate is determined at lease inception based on a number of factors including asset type, lease currency and lease term. Lease payments include fixed payments and variable lease payments dependent on an index or rate, initially measured using the index or rate at the commencement date. The lease term reflects any extension or termination options that the Company is reasonably certain to exercise.

The lease liability is subsequently measured at amortised cost using the effective interest rate method, with interest on the lease liability being recognised as a finance expense in the income statement. The lease liability is remeasured, with a corresponding adjustment to the right of use asset, if there is a change in future lease payments, for example resulting from a rent review, change in a rate/index or change in the Company's assessment of whether it is reasonably certain to exercise an extension, termination or purchase option.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

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

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

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

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

Inventory
Inventory is valued at the lower of cost and net realisable value. Cost is determined on a moving average basis.

Contingent liabilities
A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 22 for details of contingent liabilities.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, less any bank overdrafts. In the statement of financial position, bank overdrafts are shown within current liabilities.

Finance costs
Finance costs are recognised as an expense in the period in which they are incurred unless they are attributable to an asset under construction, in which case finance costs are capitalised.

Finance income
Finance income is recognised in the period to which it relates using the effective interest rate method.

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

The Company writes off a trade receivable when there is objective evidence that the debtor is in significant financial difficulty and there is no realistic prospect of recovery.

Taxation

a) Current income tax

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

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Company measures its tax balances either based on the most likely amount or the expected value, depending on which method provides a better prediction of the resolution of the uncertainty.

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

b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back. In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Deferred tax assets and liabilities are offset where there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Employee benefits

a) Pension obligations

The Company participates in the MyCSP scheme of the Principal Civil Service Pension Scheme (PCSPS) (a government pension scheme providing benefits based upon final pensionable pay). The scheme is an unfunded statutory public service pension scheme with the benefits underwritten by the Government. The Company's only obligation is to pay the contributions as they fall due and if the Company ceases to employ members of the scheme, it will have no obligation to pay any further contributions to cover any shortfall against the cost of the benefits earned by its own employees in respect of previous years. Therefore, the scheme is a defined contribution scheme for the purpose of FRS 101 and is accounted for as such by the Company.

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

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

Notes to the financial statements *(continued)*

2.Summary of significant accounting policies *(continued)*

The fair values of plan assets are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

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

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

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

Upon the transfer of the RSME contract to Babcock Land Defence Limited in the year ended 31 March 2021, the pension surplus on the Babcock International Group pension scheme was part of the sale agreement and so this surplus which is now part of Babcock Land Defence Limited has been recognised as part of the capital contribution made by Babcock Land Limited to Babcock Land Defence limited recognised in the prior year.

b) Holiday pay

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

Foreign currencies

a) Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Sterling, which is the Company's functional and presentation currency.

b) Transactions and balances
Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the year-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Financial instruments

Cash and cash equivalents, trade receivables, amounts due from related parties and other receivables are classified as financial assets held at amortised cost as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. Trade receivables, contract assets and lease receivables include a provision for expected credit losses. The Company measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. For all other financial assets carried at amortised cost, including loans to joint ventures and associates and other receivables, the Company measures the provision at an amount equal to 12-month expected credit losses.

Trade and other payables, amounts due to related parties, other payables, accruals and bank loans and overdrafts are classified as financial liabilities held at amortised cost.

Notes to the financial statements *(continued)*

2 Summary of significant accounting policies *(continued)*

Fair value measurement

The fair value of an asset or liability is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the year-end date. Fair value measurements are used on a recurring basis except where used in the acquisition of assets and liabilities through a business combination.

The carrying values of financial assets and liabilities which are not held at fair value in the Company balance sheet are assumed to approximate to fair value due to their short-term nature.

There have been no changes to the valuation techniques used during the year.

Provisions for liabilities

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

Dilapidation provisions for general wear and tear costs are charged to the income statement on a straight-line basis, over the contracted lease term.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Provisions for losses on contracts are recorded when it becomes probable that total estimated contract costs will exceed total contract revenues. Such provisions are recorded as write downs of contract balances for that portion of the work which has already been completed, and as liability provisions for the remainder. Losses are determined on the basis of estimated results on completion of contracts and are contract assessments are updated regularly.

Exceptional items

Exceptional items are those which are significant, non-recurring and outside of the normal operating practice. These items are described as exceptional to appropriately represent the Company's underlying business performance.

Business combinations under common control

Where a business combination takes place in which all the combining entities are ultimately controlled by the same party, both before and after the combination, the book value method is applied to the assets and liabilities at the date of transfer and recognised separately. The receiving entity recognises within equity any difference between the consideration paid and the book value of the assets and liabilities received. Where the consideration paid is lower than the value of the net assets transferred, this is considered to be a capital contribution from the selling party to the receiving party.

Dividends

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

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods. Any restatements identified relating to reporting periods before 1 April 2020 have been corrected by cumulatively restating the impacted balance sheet line item, including retained earnings, at 1 April 2020.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

In the course of preparation of the financial statements judgements and estimates have been made in applying the Company's accounting policies that have had a material effect on the amounts recognised in the financial statements. The application of the Company's accounting policies requires the use of estimates and the inherent uncertainty in certain forward-looking estimates may result in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. Critical accounting estimates are subject to continuing evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable in light of known circumstances. Critical accounting estimates and judgements in relation to these financial statements are considered below.

Critical accounting judgements
Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below. Detail of the Company's key judgements involving estimates are included in the Key sources of estimation uncertainty section.

Revenue and profit recognition
A number of the Company's contracts include promises in relation to procurement activity undertaken on behalf of customers at low or nil margin, sub-contractor arrangements, and other pass-through costs. Management is required to exercise judgement on these revenue streams in considering whether the Company is acting as principal or agent. This is based on an assessment as to whether the Company controls the relevant goods or services under the performance obligations prior to transfer to customers. Factors that influence this judgement include the level of responsibility the Company has under the contract for the provision of the goods or services, the extent to which the Company is incentivised to fulfil orders on time and within budget, either through gain share arrangements or KPI deductions in relation to the other performance obligations within the contract, and the extent to which the Company exercises responsibility in determining the selling price of the goods and services. Taking all factors into consideration, the Company then comes to a judgement as to whether it acts as principal or agent on a performance obligation-by-performance obligation basis. Note that any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and cost of revenue.

Contract Modifications
Management is required to exercise judgement on any key amendments to the contract terms and conditions, to assess if these represent modifications to the contract and should be accounted for as distinct services under the contract modification guidance in IFRS 15.

The modifications will be accounted for as separate contracts where the nature of these additional services is distinct from those that were agreed with the customer at the inception of the original contract to bring in additional distinct services, at a price reflecting their stand-alone selling price. The pricing is deemed to be stand-alone where it would have disadvantaged one or other of the parties.

Series Guidance
The total contractual price on some contracts within the Company contain elements of fixed and elements of variable revenue. The variable revenue can include KPIs debits and credits, gain share and discretion fees that are effectively a reduction of revenue if certain targets aren't met, and other volume based variable revenue components.

The Company recognises the revenue on these variable revenue elements in the period the related sub-activities occurred as per IFRS 15, paragraph 85.

Assuming that IFRS 15, paragraph 85 applies when cost method is used in the series guidance, the "distinct services" within the series could be interpreted as the sub-activities in the time increment. On that basis, variable consideration is allocated to the related sub-services in the period it has occurred.

Material rights
IFRS15 requires the directors to assess renewal options in a contract to determine if they represent a material right to the customer, and hence whether they should be included within the contract when assessing the appropriate period over which revenue should be recognised. A material right is considered to exist where they are offered at a price that does not reflect the stand-alone selling price for a similar contract to a similar

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

class of customer (i.e., they provide an incremental discount to the customer). To assess whether the price for any extension years is a discount compared to the stand-alone selling price, the consideration for these years is forecast using the pricing schedule from the contract and applying an interpretation of the indexation formula provided by the customer, approximately equal to future inflation rates the Directors reasonably anticipated at the outset of the contract.

If management determine that the renewal options represent a material right in the context of the contract, then they are accounted for as separate performance obligations on a relative stand-alone selling price basis.

Termination clauses contained within contracts
Per IFRS15, paragraph 11, the revenue standard applies to the duration of the contract in which the parties to the contract have present enforceable rights and obligations. This requires assessment of termination clauses in contracts. The directors have considered whether the penalties associated with such termination clauses are 'substantive'.

Where the penalties are substantial the Company has taken the view that the customer is unlikely to cancel the contract and the contract should be accounted for over time.

Sublease classification
The Company holds lease contracts with a lessor for the long term, lease of a fleet of vehicles (the "Head Lease"). The Company then sub-leases these vehicles to the customer (the "Sub-lease"). The duration of the Head Lease and the Sub-lease are identical.

The Directors have used judgement in determining the classification of the sublease and have determined that in substance the Sub-lease arrangement is that of an operating lease.

More precisely, significant judgement was made to consider the sublease as operating lease based on the overall substance of the arrangement where Babcock retains significant benefits from the sale of the vehicles to third parties at the end of the head-lease – Babcock are appointed as sales agents at the culmination of the lease. In other words: management has concluded that there is a residual asset in the sublease contract, which Babcock will get back and will be able to generate rewards from by virtue of selling that asset. Thus, in applying paragraph 65 of IFRS 16 (*"if it is clear from other features that the lease does not transfer substantially all the risks and rewards incidental to ownership of [the right-of-use arising from the headlease - para B58], the lease is classified as an operating lease"*) management have concluded that the rewards of ownership have not been substantially transferred and thus the contract is an operating lease.
In arriving at this assessment, the Directors have determined the following:

- Judgement has been applied in evaluating the classification criterion of present value of the sublease payments vs the fair value of the asset (where results were between 79% and 90%).
- The head lessor is a financing group, and hence in the Directors judgement it would be reasonable to assume that there would be no benefit in the head lessor taking the vehicles back at the end of the lease to retain the residual value which reinforces the substance of the transaction where the benefit from that residual value remains with Babcock.
- Babcock maintain the responsibility of providing all elements of maintenance and servicing throughout the term of the leases.

Leases where the customer is the landlord
The company has several lease contracts where the landlord is also the customer of the contract. However, in management's judgement, the company has the right to obtain substantially all of the economic benefits of the asset and direct the use of the assets. These therefore fall under the definition of a lease under IFRS 16. A lease liability and right of use asset has been recognised, and the costs of the lease are recorded within expenses.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty
The key sources of estimation uncertainty at the reporting period end that may result in significant risk of material adjustment to the carrying amount of assets and liabilities within the next financial year are below:

Revenue and profit recognition
The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.

Defined benefit pension schemes obligations
The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 21.

4 Revenue

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

	2022	2021
	£000	£000
		Restated
Revenue:		
Provision of services - transferred over time	**129,579**	72,749
Provision of services - transferred at a point in time	**96,455**	69,984
Sale of goods	**6,262**	9,758
	232,296	152,491

By geographical area:

	2022	*2021*
	£000	*£000*
		Restated
Revenue:		
United Kingdom	**232,296**	152,491
	232,296	152,491

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in Note 22.

Notes to the financial statements *(continued)*

5 Operating profit/(loss)

Operating profit is stated after charging / (crediting):

	2022	*2021*
	£000	*£000*
		Restated
Operating loss is stated after charging/(crediting):		
Amortisation charge on intangible assets (note 11)	**465**	16,515
Impairment of intangible assets (note 11)	**-**	65,662
Depreciation - property, plant & equipment (note 12)	**44**	2,049
Impairment of property, plant & equipment (note 12)	**-**	5,274
(Profit) on disposal of fixed assets	**(175)**	(10)
Depreciation - right of use assets (note 13)	**3,460**	2,903
Impairment of right of use assets (note 13)	**-**	896
Interest on lease liabilities (note 6)	**812**	102
Operating lease charges – low value leases	**16**	16
Cost of inventories recognised as an expense	**31,138**	31,790
Net foreign exchange losses	**24**	126
Research and development costs	-	1,730
Staff costs (note 7)	**90,540**	80,481
Fees for audit services payable to the Company's auditor	**99**	47

Fees paid to the Company's auditors, Deloitte LLP and its associates (2022), PricewaterhouseCoopers LLP and its associates (2021), are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

Fees payable for the audits of Babcock Land Limited £159,000 (2021: £nil) have been borne by the Company and are in addition to the fees in respect of the Company disclosed in the table.

6 Finance costs

	2022	*2021*
	£000	*£000*
		Restated
Bank interest paid	**(169)**	(276)
Interest on lease liabilities	**(812)**	(102)
	(982)	(378)

Notes to the financial statements *(continued)*

7 Staff costs

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

By Activity:	2022 Number	2021 Number
Operational and technical	**2,210**	2,019
Management and administration	**61**	19
	2,271	2,038

Their aggregate remuneration comprised:

	2022 £000	*2021 £000*
Wages and salaries	**71,967**	63,247
Social security costs	**7,408**	6,186
Other pension costs	**11,165**	11,048
	90,540	80,481

Included in other pension costs are £409,000 (2021: £1,006,000) in respect of defined benefit schemes and £10,756,000 (2021: £10,004,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

8 Directors' emoluments

The emoluments of the Directors, including pension contributions, paid in respect of services provided to the Company were as follows:

	2022 £000	*2021 £000*
Remuneration (including benefits-in-kind)	**1,079**	314
Defined contribution pension schemes	**44**	14
	1,123	328

During the year 1 (2021: no) Directors remunerated by Babcock Land Defence Limited exercised share options under long term incentive plans and four (2021: five) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Directors (2021: none) under the company defined benefit pension scheme.

Notes to the financial statements *(continued)*

8 Directors' emoluments *(continued)*

Except for four (2021: three) Directors, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

The above amount for remuneration includes the following in respect of the highest paid director:

	2022	*2021*
	£000	*£000*
Remuneration (excluding pension contributions)	**338**	117
Defined contribution pension schemes	**-**	6
	338	123

The highest paid Director exercised shares under long term incentive plans (2021: did not exercise shares under long term incentive plans).

The highest paid Director's defined benefit accrued pension and accrued lump sum at 31 March 2022 was £nil (2021: £nil) and £nil (2021: £nil), respectively.

9 Share based payments

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Babcock Land Defence Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report in the Babcock International Group PLC Annual Report and Accounts.

The fair value per option granted and the assumptions used in the calculation are as follows:

Performance Share Plan (PSP)

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,84	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,24	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,47	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2019 PSP	1,370,67	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,03	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2018 PSP	860,157	856.0	14.0%	6.0	–	370.9	856.0	56.0%	13/06/18
2018 PSP	1,699,32	856.0	14.0%	4.0	–	370.9	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,33	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17

Notes to the financial statements *(continued)*

9 Share based payments *(continued)*

The vesting period and the expected life of all PSP awards are three years, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance.

PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

The expected volatility is based on historical volatility over the last one to three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon government bonds of a term consistent with the assumed option life.

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 4,784 matching shares were purchased on the open market (2021: 5,000 matching shares) and 2,823 matching shares vested (2021: 1,193 matching shares) leaving a balance of 6,973 matching shares (2021: 5,012 matching shares).

10 Tax

Income tax expense

Analysis of tax expense/(benefit) in the year	**Year ended 31 March 2022 £000**	*Year ended 31 March 2021 Restated £000*
Current tax		
UK current year expense/(benefit)	**-**	-
Deferred tax		
Origination and reversal of timing differences	**889**	(12,498)
Adjustment in respect of prior year	**199**	39
Impact of change in UK tax rate	**(358)**	-
Total income tax expense/(benefit)	**730**	(12,459)

Notes to the financial statements *(continued)*

10 Tax *(continued)*

The tax for the year is lower (2021: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2022	*Year ended 31 March 2021*
	£000	*£000*
		Restated
Profit/(loss) before tax	**19,230**	(145,879)
Profit/(loss) on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2021: 19%)	**3,654**	(27,717)
Effects of:		
Expenses not deductible for tax purposes	**-**	3
Group relief (claimed)/surrendered for nil consideration	**(2,765)**	15,216
Prior year adjustments - deferred tax	**199**	39
Impact of change in the UK tax rate	**(358)**	-
Total income tax expense/(benefit)	**730**	(12,459)

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable 199right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	31 March 2022	*31 March 2021*
	£000	*£000*
		Restated
Deferred tax asset	**-**	1,246
Deferred tax liability	**(4,549)**	-
	(4,549)	1,246

Notes to the financial statements *(continued)*

10 Tax *(continued)*

The movements in deferred tax (assets) and liabilities during the year are shown below.

	Accelerated capital allowances £000	Retirement benefit obligations £000	Other timing differences £000	Total £000
At 1 April 2021 (restated)	(1,499)	350	(97)	(1,246)
Income statement credit/(debit)	6	626	97	729
Tax credit/(debit) to other comprehensive income/equity	-	5,111	-	5,111
At 31 March 2022	**(1,493)**	**6,087**	**-**	**4,594**
At 1 April 2020	(422)	-	13,269	12,847
Contract novation from Babcock Land Limited	-	2,032	-	2,032
Income statement credit/(debit)	(1,077)	1,984	(13,366)	(12,459)
Tax credit/(debit) to other comprehensive income/equity	-	(3,666)	-	(3,666)
At 31 March 2021 (restated)	(1,499)	350	(97)	(1,246)

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

Notes to the financial statements *(continued)*

11 Intangible assets

	Software £000	Development costs £000	Acquired contract intangible £000	Total £000
Cost				
At 1 April 2021	13,879	-	140,951	154,830
Contract novation	-	392	-	392
Additions	1	-	-	1
Disposals	-	-	-	-
At 31 March 2022	**13,880**	**392**	**140,951**	**155,223**
Accumulated amortisation				
At 1 April 2021	(11,701)	-	(140,951)	(152,652)
Amortisation	(331)	(134)	-	(465)
Disposals	-	-	-	-
At 31 March 2022	**(12,032)**	**(134)**	**(140,951)**	**(153,117)**
Net book value				
At 31 March 2022	**1,848**	**258**	**-**	**2,105**
At 31 March 2021	2,178	-	-	2,178

The acquired contract intangible is the estimated fair value at the date of acquisition from the MoD of customer relationships which are contractual, represented by the value of the acquired order book. The carrying value of the contracted element was amortised straight-line over the remaining period of the orders that are in process which is ten years. The acquired contract intangible was impaired to nil net book value in year ended 31 March 2021, in line with an assessment under IAS 36, following a profitability review of the related contract.

The contract novation in the year is explained in the Strategic report on page 3.

Intangible assets amortisation is recorded in costs of revenue in the income statement.

Notes to the financial statements *(continued)*

12 Property, plant, and equipment

	Plant & equipment
	£000
Cost	
At 1 April 2021	15,360
Contract novation	69
Additions	1,564
Disposals	(1,686)
At 31 March 2022	**15,307**
Accumulated depreciation	
At 1 April 2021	(14,992)
Charge for the year	(44)
Disposals	-
At 31 March 2022	**(15,036)**
Net book value:	
At 31 March 2022	**270**
At 31 March 2021	368

Contractual commitments for property, plant and equipment at year end is £nil (2021: £nil).

Property, plant and equipment, for one contract in Babcock Land Defence Limited, was impaired to nil net book value in year ended 31 March 2021, in line with an assessment under IAS 36, following a profitability review of the related contract.

The contract novation in the year is explained in the Strategic report on page 3.

Capital commitments
Capital expenditure contracts for but not provided for in full in the financial statements is £nil (2021: £nil).

Notes to the financial statements *(continued)*

13 Leases

Right-of-use assets

The Company leases buildings, equipment and motor vehicles used in the operations under non-cancellable lease arrangements.

	Property	Plant & machinery	Motor vehicles	Total
	£000	£000	£000	£000
Cost				
At 1 April 2021 (as previously reported)	15,590	3,822	-	19,412
Prior year restatement	(15,161)	-	-	(15,161)
At 1 April 2021 (restated)	**429**	**3,822**	**-**	**4,251**
Contract novation	-	-	18,582	18,582
Additions	-	596	-	596
Disposals	-	(520)	(69)	(588)
At 31 March 2022	**429**	**3,898**	**18,514**	**22,840**
Accumulated depreciation				
At 1 April 2021 (as previously reported)	(15,258)	(3,277)	-	(18,535)
Prior year restatement	15,161	-	-	15,161
At 1 April 2021 (restated)	**(97)**	**(3,277)**	**-**	**(3,374)**
Charge for the year	(19)	(345)	(3,642)	(4,006)
Disposals	-	518	29	547
At 31 March 2022	**(116)**	**(3,104)**	**(3,613)**	**(6,833)**
Net book value:				
At 31 March 2022	**312**	**794**	**14,901**	**16,007**
At 31 March 2021	332	545	-	877

The contract novation in the year is explained in the Strategic report on page 3.

Right of use assets, for one contract in Babcock Land Defence Limited, was impaired to nil net book value in year ended 31 March 2021, in line with an assessment under IAS 36, following a profitability review of the related contract.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

Notes to the financial statements *(continued)*

13 Leases *(continued)*

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

	2022 £000	2021 £000
Opening as at 1 April (as previously reported)	3,304	9,811
Prior year restatement	-	(8,521)
Opening as at 1 April (restated)	3,304	1,310
Contract novation	19,093	-
Additions	596	3,069
Disposals	(84)	(46)
Interest charged	796	117
Payments	(6,290)	(1,126)
Closing as at 31 March	**17,415**	**3,304**

Discounted future minimum lease payments are as follows:

	31 March 2022 £000	31 March 2021 £000
Within one year	**5,195**	1,892
In more than one year, but not more than five years	**12,220**	1,412
Carrying value of liability	**17,415**	3,304

The following are the amounts recognised in profit or loss:

	31 March 2022 £000	31 March 2021 £000
Expense relating to low value leases	**16**	16
	16	16

Notes to the financial statements *(continued)*

14 Investments

	2022 Shares in group undertakings £	2021 Shares in group undertakings £
Cost		
At April 2021	**1**	1
Carrying amount at 31 March 2022	**1**	1

The shares in group undertakings represents 100% of the shares in Peterhouse GmbH, whose registered office is AmZoppenberg 23, 41366 Schwalmtal, Germany. The directors believe the carrying value of the investment is supported by the value in use of the underlying asset.

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

15 Inventories

	2022	2021
	£000	£000
Raw materials and consumables	**7,624**	9,071
	7,624	9,071

Inventories are stated after provisions for impairment of £11,227,000 (2021: £7,446,000).

Notes to the financial statements *(continued)*

16 Trade and other receivables

	2022 £000	*2021 £000 Restated*
Amounts falling due within one year:		
Trade receivables	**41,868**	13,267
Contract balances	**20,916**	11,184
Amounts owed by Group undertakings	**1,166**	889
Other receivables	**73**	71
Prepayments	**756**	441
	64,779	25,852

	2022 £000	*2021 £000 Restated*
Amounts falling due after more than one year:		
Amounts owed by Group undertakings	**40,884**	10,884
	40,884	10,884

Amounts due from group undertakings are unsecured and repayable on demand. This consists of two (2021: one) loans totalling £39,782,000 (2021: £9,782,000), with no interest charge.

Trade receivables are stated after provisions for impairment of £nil (2021: £nil).

Current intercompany receivables are expected to be settled in the company's usual operating cycle of 12 months or less.

In the year ended 31 March 2022, the UK corporation tax receivable balance shown separately in the prior year of £1,102,000 has been restated to be shown as part of the balance that is owed by group undertakings. This is not shown in note 22 as there is no change to the face of the balance sheet.

Notes to the financial statements *(continued)*

17 Trade and other payables

	2022	*2021*
	£000	*£000*
		Restated
Amounts falling due within one year:		
Trade Payables	**5,384**	32,014
Amounts owed to group undertakings	**29,590**	29,944
Contract liabilities	**49,912**	50,607
Other taxation and social security	**3,677**	1,757
Goods received not invoiced	**13,533**	19,202
Accruals	**32,525**	35,210
	134,621	168,734

Amounts due to Group undertakings comprises the following:

- One loan totalling £27,106,000 (2021: £27,106,000) is repayable on demand, with no interest charge.
- All other amounts due to group undertakings are trading balances expected to be settled in the company's usual operating cycle of 12 months or less.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 25).

18 Provisions for Liabilities

The company had the following provisions during the year:

	Dilapidation provision £000	Reorganisation provision £000	Contract provision	Total £000
At 31 April 2021 (restated)	**3,540**	**-**	**6,934**	**10,474**
(Credited)/charged to the income statement	760	2,680	(5,478)	(2,038)
At 31 March 2022	**4,300**	**2,680**	**1,456**	**8,436**

Dilapidation provision
The provision is for the cost of returning leasehold buildings to their original pre-lease state. The provision is expected to be utilised as and when various property leases expire and are not renewed.

Reorganisation provision
The provision is for severance costs relating to a restructure and will be utilised within one year.

Contract provision
The provision is mainly for a contract taking on the liability for work undertaken on infrastructure maintained under the contract. The original contractor has gone into liquidation and therefore there would be no opportunity to go back to the original supplier to rectify issues. It is not expected to be fully utilised within one year.

Notes to the financial statements *(continued)*

19 Share capital

	2022 Share capital £	**2022 Share premium £**	2021 Share capital £	2021 Share premium £
Allotted, called-up and fully paid				
100 ordinary shares of £1 each	**100**	**-**	100	-
100 shares of £476,190 each	**-**	**47,619,000**	-	47,619,000
	100	**47,619,000**	100	47,619,000

20 Related party disclosures

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

21 Pension commitments

Defined contribution schemes
The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of many of its employees.

The Company operated two defined contribution schemes. The pension charge for the year includes contributions payable by the Company to these funds:

	31 March 2022 £000	*31 March 2021 £000*
Babcock Defined Contribution Scheme	**4,417**	3,074
Civil Service Pension Scheme	**6,339**	6,930
	10,756	10,004

Defined benefit scheme
The company is also a contributing employer to a defined benefit scheme (the "Babcock International Group Pension Scheme"). The company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are as follows:

	31 March 2022 £000	*31 March 2021 £000*
Retirement benefits - funds in surplus	**202,200**	147,158
Retirement benefits - funds in deficit	**(178,033)**	(145,318)
	24,167	1,840

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

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

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

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004..

Babcock International Group PLC Pension Scheme

The IAS 19 valuation has been updated at 31 March 2022 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2021. The major assumptions used for the IAS 19 valuation were:

Major assumptions	**2022 %**	2021 %
Rate of increase in salaries	**3.4**	2.9
Rate of increase in pension payment	**3.5**	3.1
Discount rate	**2.7**	2.0
Inflation	**3.2**	2.7

The expected total employer contributions to be made by participating employers to the scheme in 2022/23 are £9.3m. The future service rate is 51.1%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2022 Years	2021 Years
Life expectancy from age 65 (male age 65)	**21.8**	22.1
Life expectancy from age 65 (male age 45)	**22.4**	22.7

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

The changes to the Babcock International Group Plc statement of financial position at 31 March 2022 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2022 £000	**Income statement 2022 £000**
Initial assumptions	**1,283,066**	**2,927**
Discount rate assumptions increased by 0.5%	(87,120)	(4,212)
Discount rate assumptions decreased by 0.5%	98,026	3,643
Inflation rate assumptions increased by 0.5%	52,092	1,910
Inflation rate assumptions decreased by 0.5%	(47,730)	(1,736)
Total life expectancy increased by half a year	31,307	936
Total life expectancy decreased by half a year	(28,741)	(861)
Salary increase assumptions increased by 0.5%	6,929	415
Salary increase assumptions decreased by 0.5%	(6,544)	(392)

The weighted average duration of cash flows (years) was 14 (2021: 17).

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2022 were:

Fair value of plan assets	**2022 £'000**	*2021 Restated £'000*
Equities	**7,701**	(79)
Property funds	**121,945**	138,681
High yield bonds/emerging market debt	**19,785**	138,160
Absolute return and multi strategy funds	**-**	77,583
Bonds	**662,075**	586,837
Matching assets	**711,526**	551,788
Scheme assets	**1,523,032**	1,492,970
Active position on longevity swaps	**(65,800)**	(67,060)
Total assets	**1,457,232**	1,425,910
Present market value of liabilities - funded	**(1,283,066)**	(1,408,078)
Pension surplus	**174,166**	17,832

All the assets of the scheme are quoted except for the longevity swaps.

The longevity swaps have been valued, in 2022, in line with assumptions that are consistent with the requirements of IFRS 13.

The equity investments and bonds are valued at bid price.

The scheme does not invest directly in assets or shares of Babcock International Group Plc.

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

Analysis of amount charged to the income statement in Babcock International Group Plc	**2022 £000**	*2021 Restated £000*
Current service cost	**5,873**	5,741
Incurred expenses	**2,506**	2,596
Past service cost	**-**	999
Total included within operating profit	**8,379**	9,336
Net interest income	**(537)**	(2,776)
Total charged to the income statement	**7,842**	6,560

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £1,163,000 for service cost and incurred expenses (2021: £964,000), and net interest income of £75,000 (2021: net interest income of £286,000 as restated).

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCI")	**2022 £000**	*2021 Restated £000*
Actuarial gain/(loss)recognised in the SOCI	**119,728**	(117,988)
Experience (loss)/gain	**(16,961)**	4,590
Other losses	**2,601**	3,023
	(105,368)	(110,375)

The actuarial gain recognised in the Statement of Comprehensive Income in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £19,032,000 (2021: loss of £8,600,000 as restated).

Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc	**2022 £000**	*2021 Restated £000*
At 1 April	**1,425,910**	1,384,579
Interest income	**28,017**	32,601
Employee contributions	**71**	99
Employer contributions	**58,808**	26,981
Benefits paid	**(75,881)**	(80,924)
Actuarial gain	**20,307**	62,574
At 31 March	**1,457,232**	1,425,910

Notes to the financial statements *(continued)*

21 Pension commitments *(continued)*

Reconciliation of present value of scheme liabilities in Babcock International Group plc	**2022 £000**	*2021 £000 Restated*
At 1 April	**1,408,078**	1,276,793
Service cost	**5,873**	5,741
Incurred expenses	**2,506**	2,596
Interest on liabilities	**27,480**	29,825
Employee contributions	**71**	99
Actuarial loss/(gain) – demographics	**(22,776)**	11,371
Actuarial (gain)/loss – financial	**(79,246)**	166,168
Experience losses/(gains)	**16,961**	(4,590)
Benefits paid	**(75,881)**	(80,924)
Settlement	**-**	999
At 31 March	**1,283,066**	1,408,078

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £24,167,000 (2021: asset of £1,840,000 as restated).

22 Prior year restatement

In the year ended 31 March 2022, the Company restated the prior year financial information. The restatements are summarised below:

Income statement

Income Statement *for the Year Ended 31 March 2021*	**Reported**	**DSG exit costs**	**DSG leases with MoD**	**Reclassify Amounts owed by Group**	**Capitalised bid costs**	**Pension asset**	**Reclass Corp tax balance**	**Misstatement Corrections**	**Restated**
	2021	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue	164,177	(39)	(3,567)	-	-	-	-	(8,080)	152,491
Cost of sales	(307,687)	-	3,208	-	5,100	292	-	3,000	(296,087)
Gross loss	**(143,510)**	**(39)**	**(359)**	-	**5,100**	**292**	-	**(5,080)**	**(138,516)**
Administrative expenses	(2,191)								(2,191)
Loss before interest and taxation	**(145,701)**	**(39)**	**(359)**	-	**5,100**	**292**	-	**(5,080)**	**(140,707)**
Finance costs	(737)	-	359	-	-	-	-	-	(378)
Other finance income - pensions	382	-	-	-	-	(96)	-	-	286
Net finance costs	**(355)**	-	**359**	-	-	**(96)**	-	-	**(91)**
									-
Loss before income tax	**(146,056)**	**(39)**	**0**	-	**5,100**	**196**	-	**(5,080)**	**(145,879)**
									-
Income tax benefit	14,476	-	-	-	-	(2,017)	-	-	12,459
									-
Loss for the financial year	**(131,580)**	**(39)**	**0**	-	**5,100**	**(1,821)**	-	**(5,080)**	**(133,419)**

Statement of comprehensive income

Statement of Comprehensive Income for the Year Ended 31 March 2021	**Reported**	**DSG exit costs**	**DSG leases with MoD**	**Reclassify Amounts owed by Group**	**Capitalised bid costs**	**Pension asset**	**Reclass Corp tax balance**	**Misstatement Corrections**	**Restated**
	2021	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**	**2021**
	£000	**£000**	**£001**	**£002**	**£000**	**£000**	**£000**	**£000**	**£000**
Loss for the financial year	(131,580)	(39)	0	-	5,100	(1,821)	-	(5,080)	(133,419)
Loss on re-measurement of net defined benefit obligation	(8,165)	-	-	-	-	(435)	-	-	(8,600)
Tax charge on net defined benefit obligation	1,551	-	-	-	-	2,111	-	-	3,662
	(6,614)	-	-	-	-	**1,676**	-	-	**(4,938)**
									-
									-
Total other comprehensive expense	**(138,193)**	**(39)**	**0**	-	**5,100**	**(145)**	-	**(5,080)**	**(138,357)**

Notes to the financial statements *(continued)*

22 Prior year restatement *(continued)*

Statement of financial position

Statement of financial position	Reported	DSG exit costs	DSG leases with MoD	Reclassify Amounts owed by Group	Capitalised bid costs	BIG DB pension scheme	Reclass Corp tax balance	Misstatement Corrections	Restated
as at 31st March 2021	2021	2021	2021	2021	2021	2021	2021	2021	2021
	£000	£000	£001	£002	£000	£000	£000	£000	£000
Fixed assets									
Intangible assets	2,178	-	-	-	-	-	-	-	2,178
Property, plant & equipment	368	-	-	-	-	-	-	-	368
Right Of Use Assets	877	-	-	-	-	-	-	-	877
Trade and other receivables	-	-	-	9,782	-	-	1,102	-	10,884
Deferred tax asset	1,152	-	-	-	-	94	-	-	1,246
	4,575	-	-	**9,782**	-	**94**	**1,102**	-	**15,553**
Current assets									-
Inventories	6,071	-	-	-	-	-	-	3,000	9,071
Pension scheme surplus	2,350	-	-	-	-	(510)	-	-	1,840
Trade and other receivables	39,681	-	35	(9,782)	5,100	-	(1,102)	(8,080)	25,852
Cash and cash equivalents	48,708	-	-	-	-	-	-	-	48,708
	96,810	-	**35**	**(9,782)**	**5,100**	**(510)**	**(1,102)**	**(5,080)**	**85,471**
Current Liabilities									-
Trade and other payables	(164,843)	(3,694)	(197)	-	-	-	-	-	(168,734)
Lease Liabilities	(3,547)		1,655	-	-	-	-	-	(1,892)
Net current liabilities	**(71,580)**	**(3,694)**	**1,493**	**(9,782)**	**5,100**	**(510)**	**(1,102)**	**(5,080)**	**(85,155)**
Total assets less current liabilities	**(67,006)**	**(3,694)**	**1,493**	-	**5,100**	**(416)**	-	**(5,080)**	**(69,603)**
									-
Non-current liabilities									-
Lease Liabilities	(6,853)	-	5,441	-	-	-	-	-	(1,412)
Provisions for liabilities	(3,540)	-	(6,934)	-	-	-	-	-	(10,474)
Net liabilities	**(77,399)**	**(3,694)**	**(0)**	-	**5,100**	**(416)**	-	**(5,080)**	**(81,489)**
									-
Equity									-
Called up share capital	-	-	-	-	-	-	-	-	-
Share premium account	47,619	-	-	-	-	-	-	-	47,619
Retained earnings	(125,018)	(3,694)	(0)	-	5,100	(416)	-	(5,080)	(129,108)
Total shareholders' funds	**(77,399)**	**(3,694)**	**(0)**	-	**5,100**	**(416)**	-	**(5,080)**	**(81,489)**
	-	-	-	-	-	-	-	-	-
Accumulated profit/(loss) bf at 1 April 2020	**6,747**	**(3,655)**	-	-	-	**(271)**	-	-	**2,821**
Accumulated profit/(loss) bf at 31 March 2021	**(125,018)**	**(3,694)**	-	-	**5,100**	**(416)**	-	**(5,080)**	**(129,108)**
Total Equity bf at 1 April 2020	**54,366**	**(3,655)**	-	-		**(271)**	-	-	**50,440**
Total Equity at 31 March 2021	**(77,399)**	**(3,694)**	-	-	**5,100**	**(416)**	-	**(5,080)**	**(81,489)**

Prior year restatement

Change to Membership Data

Furthermore, a change to membership data, and a refinement in the calculation of the value of the defined benefit obligation for the scheme which now allows for the inclusion of the actual known rate of the next pension increase, rather than using the longer-term assumed inflation rate of pension increases, has been reflected in the prior year. This approach was not appropriately followed in the year ended 31 March 2021. Correction of this error results in an decrease to the defined benefit surplus of £510,000 and a loss through the statement of other comprehensive income of £435,000.

Notes to the financial statements *(continued)*

22 Prior year restatement *(continued)*

DSG exit costs
the requirements of IFRS 15 para B19(a) have been considered and as a subsequence management have drawn the conclusion that exit costs should be included within the long-term accounting model for the DSG contract traded within Babcock Land Defence Limited, as these inefficiencies are deemed to have been reflected in the price of the contract and therefore should be included within the model. However, this is limited to exit costs specifically identified at the bid stage rather than all exit costs across the contract life.

DSG leases with MoD
Babcock leases several properties from the MoD to carry out the duties of the DSG contract. DSG also invoices the MoD for the lease of these properties as part of the contract. In the year ended 31 March 2022 it was agreed that as the supplier and customer were essentially the same entity it would be inappropriate to trade either the revenue or the costs associated with these leases. Equally it was also considered inappropriate to recognise the right of use assets and related lease liabilities for these properties. Therefore the year ended 31 March 2021, and reserves prior to this year, have been restated to derecognise the revenue, costs, right of use assets and lease liabilities relating to these properties.

Reclassify amounts owed by Group undertakings
In the prior year, amounts owed by Group undertakings were presented as falling due within one year and classified within current assets. Considering the fact that these assets are not expected to be settled within the next 12 months the classification has been reassessed, and the amounts owed by Group undertakings presented within non-current assets. The statement of financial position and applicable note for the comparative period have been restated accordingly.

Capitalised bid costs
On further review of the prior year, an error was found relating to an adjustment of £5,100,000 to treat the bid costs incurred in 2019 as costs to obtain a contract, rather than costs to fulfil a contract. The expense in the year ended 31 March 2021 was duplicated and has been restated to remove the duplication error.

BIG DB pension scheme
In the year ended 31 March 2022, Babcock International Plc restated the prior year Babcock International Group Pension Scheme retirement benefit surplus. Babcock Land Defence Limited's share of the restatement has been reflected in the statement of financial position and applicable note for the comparative period accordingly. The restatement includes two elements, a change to the longevity swap valuation and a change to membership data. Please see note 21 for further details.

Misstatement Correction
Management has reassessed the application of the "series guidance" from IFRS 15 across its contract portfolio. The outcome of this is that the variable revenue is now not recognised based upon the long term but rather recognised in the period in which the related activities are performed. The impact of these adjustments was reduction of revenue and cost of sales by £8,080,000 and 3,000,000 respectively, resulting in an increase of losses of £5,080,000 for the year ended 31 March 2021. The net liabilities have also increased by £5,080,000.

Notes to the financial statements *(continued)*

23 Exceptional items

Exceptional items are those which are significant, non-recurring and outside of the normal operating practice of the Company.

	2022	2021
	£000	£000
		Restated
Presented within cost of revenue:		
Impairment of Intangible asset*	**-**	65,662
Impairment of property, plant & equipment**	**-**	5,274
Impairment of ROU assets***	**-**	853
Presented within administrative expenses:		
Redundancy costs****	**9,094**	-
	9,094	71,789

*Impairment of intangible assets (note 11) relates to the impairment of the acquired contract intangible and SAP ERP system assets.
**Impairment of property, plant, and equipment (PPE) (note 12) relates to the impairment of the PPE as directly attributable to the DSG contract.
***Impairment of right of use assets (note 13) relates to the impairment of the assets directly attributable to the DSG contract.
****severance costs relating to a restructure announced prior to the year ended 31 March 2022.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

24 Business combinations under common control

On 1 April 2021 the Phoenix II and Babcock Contract Hire contracts which represent a business under common control was acquired by Babcock Land Defence Limited, from its immediate parent company Babcock Land Limited. All of the assets and liabilities attributable to the contracts were acquired at that date. The consideration paid was £547,758, which was equal to the net asset value at the transfer date.

25 Contingent liabilities

At the year-end date the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2021: £nil) provided to certain Group companies. In addition, the Company had joint and several liabilities for the drawn bank overdraft facilities of other Group companies of £nil (2021: £nil).

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

Notes to the financial statements *(continued)*

26 Post balance sheet events

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

27 Immediate and ultimate parent undertakings

The immediate parent undertaking is Babcock Land Limited.

The Company's ultimate parent undertaking and controlling party is Babcock International Group Plc, a Company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group Plc.

Copies of Babcock International Group Plc Financial Statements are available from the following address:

The Company Secretary
Babcock International Group Plc
33 Wigmore Street
London
W1U 1QX