

Babcock Land Defence Limited
Annual report and financial statements
for the year ended 31 March 2025
Company registration number:

09329025

COMPANY INFORMATION

Directors

N Borrett
M Abbott
P Edwards
J Rayson
K Robinson
C Spicer

Company Secretary

Babcock Corporate Secretaries Limited

Registered Number

09329025

Registered Office

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Independent Auditor

Forvis Mazars LLP
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Strategic report for the year ended 31 March 2025

The directors present their Strategic report on the Company for the year ended 31 March 2025.

Principal activities

The Company is engaged in the maintenance of military vehicles, the provision of vehicles, procurement of military consumables and repairables, 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 in the UK, the manufacture of military vehicles for the MoD under a sub contract with Supacat, providing training for the Royal School of Military Engineering (RSME), the provision of Fleet, Procurement and Supply Chain Management Services for the MoD (Phoenix), the provision of over 500 assets to the MoD via Phoenix acting as Procurement Agent (Contract Hire) and providing technical training for the MoD (EMTC). In 2024 and 2025, the Company provided maintenance of military vehicles, the provision of vehicles, procurement of military consumables and repairables in Poland and training to Ukrainian troops via project Hector.

Business review

| | 2025 | 2024 |
|--|----------------|--------------|
| | £'000 | £'000 |
| Revenue | 371,371 | 296,024 |
| Profit for the financial year before tax | 34,133 | 1,536 |
| Total shareholders' surplus/(deficit) | 24,052 | (50,430) |

Revenue, profit and shareholders surplus has increased year on year primarily due to the last year of the DSG contract and end of contract releases and strong contract growth throughout the year.

Net assets held at the balance sheet date has seen an increase from a net liability position of £(50.4m) at 31 March 2024 to £24.1m for the current year. This has been largely driven by an increase in trade and other receivables (+£45.7m) and a decrease trade and other payables (+£29.8m). This improvement is mainly driven by the movement in the intercompany cash sweep balances (+£66.8m), these are used for the management of working capital across the Group and are reflective of both the improvement in cashflow within the Company and the £50m cash injection from its parent through the issue and purchase of additional shares. In the current year they are a receivable balance, but they were an overall payable balance in the prior year. Within trade and other receivables there has also been an increase in contract balances of +£16.2m due to the strong operational performance, new business and contract extensions discussed below. The reduction in non-current trade and other receivables is due to the reclassification of an intercompany loan to current assets. Provisions have reduced by £(6.2m) year on year due to the removal of the requirement for a general dilapidation provision due to a change in contract terms. Right-of-use assets and lease liabilities have reduced as some of the vehicle leases transferred to Babcock Corporate Services in the year, another Group company. This Group-wide decision was made to simplify the management of the leases and improve the accuracy with regular movement of staff around the Group companies.

Following a period of strong operational performance on our contract for the maintenance, repair and asset management of the British Army vehicles and equipment (DSG), we were awarded a sole-source five-year extension worth around £1 billion, (now called 'DSG 2') on terms that will result in better outcomes for all stakeholders.

We have commenced mobilisation of the contract extension which will deliver improved readiness, regeneration and asset management services underpinned by extensive engineering and supply chain expertise to maximise the availability of critical army equipment. This contract cements our position as strategic partner to the British Army, thereby setting the foundation for the army modernisation programme in the coming decades.

Strategic report for the year ended 31 March 2025 (continued)

To enhance delivery of the contract extension, we launched our strategic asset management platform, Metis in partnership with Palantir Technologies. This capability includes the equipment support enterprise's digital footprint, from which the optimal balance of cost, risk and performance is derived to maximise the value of assets throughout their lifecycle. We continue to support the UK in providing critical support to Ukraine's Armed Forces, delivering personnel training and refurbishment and renewal of equipment through our Project HECTOR contract. In January 2025, we secured a 15-month contract extension from the UK MOD to continue to support urgent operational requirements for Ukraine's military land assets. In addition, Babcock secured a multi-million-pound contract with the UK MOD to undertake in-country maintenance and repair of the Ukrainian owned Combat Vehicle Reconnaissance (Tracked) (CVR(T)) fleet, in collaboration with Ukrainian industry, and continue to support Operation Interflex, the British-led multinational military operation to train and support the Armed Forces of Ukraine. Finally, in March 2025, we won a proof-of-concept contract from the UK MOD which will enable Ukraine's armed forces to use innovative technology to 3D print military equipment, demonstrating our ability to deliver defence support capability whenever and wherever it is required.

We successfully delivered the first package of work for Project TAMPA, the MOD's accelerator programme focused on the use of additive manufacturing to increase material availability and tackle obsolescence. The project aims to reduce cost and improve the performance and availability of defence capabilities and critical assets.

Babcock, in partnership with Supacat, was awarded an additional contract to manufacture 53 Jackal 3 'Extenda' variants of the High Mobility Transporter for the British Army. The initial contract awarded for 70 Jackal 3 (HMT 400 series) vehicles which began production in our new production facility within the Devonport Freeport earlier this year

Our Defence Training business has been awarded its first training contracts by NATO. These strategically important contract awards include a five-year contract to support military exercises by providing subject matter experts to fulfil play functions, and a one-year contract for the delivery of wargaming expertise to the Alliance's Joint Warfare Centre.

The business was also awarded several key UK contract extensions, including the continuing delivery of training for Falcon, the battlefield communications system used by the British Army and Royal Air Force, and a one-year extension to the ElectroMechanical Training contract for the British Army at MOD Lyneham. In April 2024, we successfully mobilised a new seven-year ARMCEM support contract, which will provide technical training for the British Army.

The Babcock Immersive Training Experience (BITE) was launched in the UK, Europe, USA and Canada. BITE is a best-in-class training capability solution for the defence and emergency services markets. It uses innovative and futureproof technology to replicate the physical, sensory and cognitive challenges of operating in a high stress environment.

Following a comprehensive evaluation of commercial terms, Babcock and its partners in Team Crucible made the decision to exit the bid to become the Strategic Training Partner for the Army Collective Training System.

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC, who head up a collection of companies that are connected through ownership and control, collectively referred to as the group. 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 2025, which does not form part of this report.

The management of the business and the execution of the Company's strategy are subject to various risks and uncertainties. These are managed through an operational review process, supplemented at a group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

Strategic report for the year ended 31 March 2025 (continued)

The key risks and uncertainties affecting the Company, broadly in line with previous years, are considered to relate to contract and project performance, timely agreement of the infrastructure needs to support MOD programmes, engineering integrity, the political and regulatory environment, cyber and information risk and exposure to the defined benefit pension scheme. The Executive team of the Company meets with MOD at numerous forums throughout the year to address the risks identified in order to ensure contractual performance and infrastructure needs are planned and executed to support the enterprise.

The Directors manage these risks by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and nuclear licensed site obligations.

Further details on the principal risks are as follows:

Contract and Project Performance risk:

The Company considers a risk for contract and project performance due to the complex nature of its work in the defence sector. It strategically accepts and manages risks within its control, aiming to mitigate them through robust risk management practices. Long-term, high-value contracts often involve stringent terms, and fixed pricing can be impacted by unforeseen costs, supply chain disruptions, and scope changes. The Company has a robust review process, monitoring performance, and performing independent deep dives to ensure alignment with capabilities and risk appetite. Despite residual risks, these controls and a culture of awareness help the Company successfully manage risks and deliver complex programmes.

Infrastructure and support for MoD Programmes:

Suitable infrastructure is essential for effectively supporting the Company's operations and enabling it to deliver high-quality services and remain competitive. Infrastructure encompasses physical assets like facilities and equipment, as well as digital systems such as IT networks, software platforms, and data management tools. The Company adopts a pro-active and strategic approach to managing risks associated with infrastructure, that includes regular maintenance, robust planning and continuous monitoring ensuring infrastructure and support aligns with operational needs and regulatory requirements both now and in the future.

Engineering Integrity:

As a provider of complex systems and critical services, the Company must ensure the technical integrity of its products and services to maintain customer and stakeholder confidence. Technical risks can arise if products fail to meet expectations or are not secure. To mitigate these risks, the Company requires a network of suitably qualified and experienced people, both within our teams and across our network of partners and supply chains, as well as access to appropriate processes, materials, tools and systems.

Political and regulatory environment risk:

The Company operates within a complex compliance landscape, encompassing a wide range of legal, regulatory, contractual, and certification requirements, including anti-bribery laws, export controls, tax regulations, data protection, and site licences. Non-compliance could lead to severe consequences such as fines, criminal prosecution, reputational damage, loss of licences, restricted market access, and reduced business opportunities. Compliance is essential for the industry in which we operate. The Company enforces robust internal policies, employs qualified personnel and external advisors, promotes ethical behaviour through its Code of Conduct and training, and encourages whistleblowing.

Cyber and Information risk:

IT and information security are fundamental components in the Company's operations, given its role in handling sensitive and confidential data for government customers, making it a potential target for cyber threats, including state-sponsored attacks. A breach could result in reputational damage, operational disruption, regulatory penalties, and loss of future business. The Company employs a multi-layered security approach, including robust infrastructure, governance structures, threat intelligence, and regular vulnerability testing. Ongoing investments in next-generation security platforms and staff education on cyber awareness further strengthen resilience, while business continuity plans are in place and regularly tested to ensure preparedness against IT-related disruptions.

Strategic report for the year ended 31 March 2025 (continued)**Exposure to DB pension scheme:**

Defined benefit schemes are influenced by various assumptions which can shift over time, potentially leading to asset shortfalls and increased liabilities. If pension assets are deemed insufficient, trustees may demand higher contributions or lump sum payments, impacting the Company's financial flexibility and growth. Regulatory changes and accounting standards also introduce volatility and uncertainty in pension valuations. To manage these risks, senior management undertakes continuous strategic monitoring and evaluation of the assets and liabilities of the pension schemes. The pension schemes mitigate the risk of liability increases by having investment strategies that hedge against interest rate and inflation risk by using longevity swaps to limit exposure to increasing life expectancy.

Key performance indicators

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 (KPIs) for the Company that reflect the internal benchmarks we use to measure the success of our business and strategy:

| | 2025 | 2024 | |
|--|----------------|-------------|---|
| Revenue Growth | 25% | 18% | Growth in revenue when compared to that of the previous year. |
| Operating Return on Revenue (ORR) | 9% | 0% | Operating profit expressed as a percentage of revenue. |
| Order Book | £2,279m | £1,135m | 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 | 1.03 | 1.25 | Health and Safety is a core value for the Company. The data includes all reported injuries. |

Revenue

Revenue has increased by £75m. This is due to end of contract releases and increased scope on the DSG contract, the impact of indexation across the majority of contracts, the continuation of the contract to build armoured vehicles in conjunction with Supacat and refurbishment and regeneration of the military vehicles gifted to Ukraine.

Strategic report for the year ended 31 March 2025 (continued)

Operating Return on Revenue

Operating return on revenue has increased by 9 percentage points for the year mainly due to the increased profitability in the DSG contract following the ongoing transformation programme.

Order Book

The overall order book has increased by £1,144m as a result following the commencement of two new contracts in year, Supacat and Project Hector along with increased scope on the DSG contract which are mentioned above.

Total injuries rate

Total injuries rate has fallen by 0.22 per 200,000 hours worked to a rate of 1.03. This is well below the upper threshold of 3.0 and a focus on health and safety remains a key priority. Safety sessions are regularly held to discuss incidents and near misses, with emphasis on sharing learnings in an effort to reduce the level of accidents. Staff are empowered to challenge others if they notice non-compliance with health and safety procedures.

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 62 to 63 and 136 to 138 of the annual report of Babcock International Group PLC, which does not form part of this report.

The Directors confirm that they, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the shareholders as a whole, while having regard for all stakeholders. 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:

The future success of the Company is driven by the long-term relationships with our customers. The Directors are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations.

We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.

What matters to them:

- Health and Safety
- Operational excellence

Strategic report for the year ended 31 March 2025 (continued)

S172(1) statement and stakeholder engagement (continued)

- Affordability, Availability, Capability
- Integrated solutions
- Innovation
- 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
- Strategic Partnership programme
- Collaboration on joint initiatives
- Attendance at key industry events
- Provision of information on sustainability goals

Suppliers

Why they matter to us:

Our sustainable growth requires 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 operational improvement through innovation and best practice. These partnerships allow us to ensure continuity of supply, minimise risk and bring integrated solutions to our customers.

What matters to them:

- Collaboration
- Fair treatment and respect
- Transparent communication
- 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 and Supplier's Guide
- Supplier conferences and workshops
- Supplier due diligence
- Implemented ESG ratings for our suppliers

Regulators

Why they matter to us:

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)

Strategic report for the year ended 31 March 2025 (continued)

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

- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

Colleagues

Why they matter to us:

Colleague engagement is a primary focus for the Directors of the Company. Our people deserve an environment in which they can thrive – one that requires an unwavering commitment to their health, safety and wellbeing, and a culture where talent is recognised, supported and developed through meaningful action so that everyone can reach their full potential, united by our common Purpose.

What matters to them:

- Fair pay and reward
- Opportunities for career development
- Health, safety and wellbeing
- An empowering, inclusive culture with strong leadership
- Collaboration

How the Company engages:

- Employee forums and meetings
- Internal communication channels, including intranet and weekly senior management vlogs
- Access to the CEO via a dedicated email
- Weekly global news round-up videos
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training programmes
- Senior management and board visits
- 'Safety Starts with Me' and Safety Stars programmes
- New colleague recognition Ignite Award scheme
- Free confidential employee support helpline

Communities

Why they matter to us:

We seek to work in partnerships with the communities we serve so that we can thrive together. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key to our ESG strategy. We aim to work with local suppliers, community groups and charities, through volunteering and STEM outreach.

What matters to them:

- Employment opportunities and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and protection of the local environment
- Support for the armed forces community
- Broad Community engagement

How the Company engages:

- Sponsorship and donations
- Working with local SMEs to support local economies

Strategic report for the year ended 31 March 2025 (continued)

S172(1) statement and stakeholder engagement (continued)

- Colleague volunteering
- University and skills partnerships
- STEM outreach
- Employer of service leavers, veterans and reserves
- Engagement with and support for local community programmes

Sustainability and environment

Sustainability is an integral part of our corporate strategy and how we do business, and it underpins our corporate Purpose: to create a safe and secure world, together. Since outlining the Group's ESG strategy in 2020 our ambition has grown, but the level and complexity of requirements placed on the business has also increased. Therefore, Babcock International Group PLC, of which this Company is a subsidiary, has undertaken a full review and refresh of our sustainability strategy, to prepare us for the years ahead, and the Company will focus on the following six strategic priorities:

1. Tackling climate change. We have a responsibility to reduce our emissions but must also have a mature understanding of how we will respond to the impacts of climate change.
2. Managing our resources responsibly. We have a responsibility to work with our suppliers and on our own sites to ensure we use resources effectively and efficiently.
3. Protecting the natural environment. Not only is it important to comply with laws and regulations, but where possible we want to enhance the environments we operate in, providing both ecological and social benefits.
4. Ensuring the health safety and wellbeing of our people. Our first duty as a business is to look after our own people. This is not just in relation to matters of safety, but also their physical and mental health. Doing so not only improves the quality of life of our workforce, but it makes us a more productive and successful business.
5. Building an inclusive, diverse and resilient workforce. Inclusion and diversity not only benefit our communities, but it also enables us to build a stronger, more innovative business. We want to nurture and support talent throughout people's careers, regardless of background.
6. Supporting our communities. We will provide positive benefits to the places in which we operate, not only through employment, but also by working with local suppliers, local community groups and charities, through volunteering and STEM outreach.

Climate action remains a key focus, building on our Group wide climate-related risk management process. In 2021, we launched our decarbonisation strategy, Plan Zero 40, where we committed to delivery of a 2030 Science Based Target in line with a 1.5-degree pathway, delivering Net Zero across our own operations (Scope 1 and 2) by 2040 and delivering total Net Zero (Scope 1, 2 and 3) by 2050.

As part of our new sustainability strategy, we are reaffirming our commitment to our long-term emission reduction targets which are:

- Reduce absolute Scope 1 and 2 greenhouse gas emissions (GHG) 90% by 2040 from a 2021 base year.
- Reduce Net Zero greenhouse gas emissions across the value chain by 2050. We also remain committed to our short-term target.

Further details in relation to these activities, and climate related financial disclosures, form part of the Group-wide ESG Strategy as described on pages 64 to 96 of the annual report for the year ended 31 March 2025 of its ultimate parent, Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2025 (continued)

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

The Company has taken advantage of the exemption granted to subsidiaries whose activities are included within a consolidated group report of a UK parent not to disclose climate-related financial requirements, as this information is disclosed in the annual report for the year ended 31 March 2025 of its ultimate parent, Babcock International Group PLC.

This report was approved by the board on 30th January 2026 and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P Edwards', written over a horizontal line.

P Edwards (Director)
30th January 2026

Directors' report for the year ended 31 March 2025

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2025.

Dividends

No interim or final dividend for the year ended 31 March 2025 is proposed by the directors (2024: £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:

N Borrett
M Abbott (appointed 30 November 2024)
S Doherty (resigned 30 September 2024)
P Edwards
J Rayson
K Robinson
C Spicer

The Board is not aware of any contract of significance 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.

In September 2025 the Company signed a follow-on contract to work in collaboration with Devon-based Supacat, to deliver an order of 53 high mobility transporters from the UK Ministry of Defence. These vehicles are expected to be delivered to the customer in the year ending 31 March 2027.

Following procurement of Phoenix III contract moving from competitive to Single Source we have been collaborating with the Customer to generate an affordable solution. Formal negotiations will start in the Autumn when a transition plan will be worked on as we move towards contract signature to ensure continuity of service.

Over the next 12 to 24 months the fleet size of the Contract Hire contract is expected to reduce to nil as we reach the end of the lease agreements with the customer. A significant number of asset disposals are forecast.

The Babcock Group will be rationalising the number of legal entities in the Group. Over the next couple of years, contracts from other legal entities within the Land and UK Aviation sector will transfer into Babcock Land Defence Limited.

Going concern

The Company's business activities, principal risks and financial position are set out within the Strategic Report. In addition, the Directors' Report includes factors likely to affect its future development and 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 its parents and fellow subsidiaries. The Company is in a net current asset position of £4.5m. 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 (UK) Holdings Limited, a fellow subsidiary of the ultimate parent company Babcock international Group PLC, confirming this position. In completing this analysis, the Directors have considered the ability of Babcock (UK) Holdings Limited to provide such finance.

Directors' report for the year ended 31 March 2025 (continued)

Going concern *(continued)*

Following review, the directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The directors have not identified 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.

Corporate governance statement

As a subsidiary of Babcock International Group PLC, the Company adheres to the broader governance of the Group and its policies. Babcock International Group PLC is listed on the London Stock Exchange and therefore complies with the UK Corporate Governance code. The Company itself does not comply with the code, but the directors of the Company apply the principles of the code to promote the purpose, values and future success of the Company.

Purpose and Principles

Our Purpose is to create a safe and secure world, together. This is why we exist as a business, and why we do what we do. It defines and underpins our new ways of working, how we create value for our shareholders and how we improve delivery for our customers. It informs the decisions we make and how we treat each other.

The Company has championed the embedding of our Purpose and Principles, ensuring they shape behaviours and leadership standards at all levels. Our Purpose and Principles were developed with the help of our people and are designed to unite us as a Company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock.

Diversity strengthens our business. It enables innovation, supports decision-making, and reflects the customers and communities we serve. We are embedding inclusion and diversity (I&D) across our operations by taking action throughout the colleague lifecycle, focusing on attraction, recruitment, career development, leadership and cultural change. This year, we continued to grow our eight colleague networks, which include B4ME (Babcock for Minority Ethnicities), the Gender Balance Network, the Disability & Carers Networks and Pride in Babcock, our colleague network that represents the LGBTQ+ community. All our networks play a vital role in amplifying colleague voices, shaping inclusive policy and fostering belonging.

Colleague wellbeing is embedded in our approach, with continued investment in initiatives such as our Employee Assistance Programme, mental health first aiders and proactive wellbeing support.

As part of our new sustainability strategy, a core priority remains increasing female representation. While progress is evident, we recognise the need for continued focus to attract, retain and develop women at all levels of the organisation. To support this, we launched tailored initiatives. This included our 'Mentor Match', a digital platform designed to inspire and support the professional growth of our people. We piloted 'Illuminate', a women's empowerment and development programme designed to enhance confidence, capability and career mobility. We also supported multiple industry forums aimed at increasing female participation in STEM.

We continue to build inclusive recruitment processes, including the use of diverse interview panels and targeted outreach to underrepresented communities. Our commitment extends to veterans, early careers, and individuals with disabilities.

Board and Director's responsibilities

The Directors responsibilities statement is included on page 17.

Board membership and effectiveness

The Board ensures that members have an appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively. Maintaining the highest standards of governance is integral to the successful delivery of our strategy.

Directors' report for the year ended 31 March 2025 (continued)

Corporate governance statement *(continued)*

Our governance framework ensures that the Board provides effective leadership in both making decisions and maintaining oversight, mapping where accountability resides and playing a key role in our internal controls.

The Board's role is to lead the Company for the long-term sustainable success of Babcock by setting our strategy and supervising the conduct of the Company's activities within a framework of prudent and effective internal controls.

Risk

The Risk Management Framework exists to manage the risk and opportunities inherent within the Company's strategy. Risk management is at the core of the Company's management practice and an integral part of all our activities, helping us to deliver our commitments to customers, colleagues and communities. FY25 saw further valuable enhancements in the quality of the Company's Risk Registers and heightened understanding of the importance of effective risk mitigation. There has been an enhanced understanding of the benefits of Enterprise Risk Management (ERM) across the Company's senior leadership team. Processes will be subject to ongoing continuous improvement.

Remuneration

The Babcock International Group PLC Remuneration Committee is responsible for reviewing the remuneration of employees of the Company, as well as alignment of incentives and rewards with culture, and take these into account when setting the policy for executive remuneration.

Business relationships

The Company's approach to business relationships is detailed in the S172 statement on pages 7-8.

Financial risk management

The applicable financial risk management policies and exposure to financial risks including interest, currency and credit risks are discussed below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to long-term debt obligations with floating interest rates, of which there is none as at 31 March 2025 (2024: none) and the cash and cash equivalent balances, which are recognised as intercompany short term loans due to the cash sweep arrangement.

Interest rate risk is managed through the maintenance of a mixture of fixed and floating rate debt and interest rate swaps, each being reviewed on a regular basis to ensure the appropriate mix is maintained.

Currency risk

Currency risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the operating activities, when revenue or expense is denominated in a foreign currency. The functional currency and presentation currency of the Company is GBP. The Company has exposure primarily to EUR, USD, PLN and SEK.

In order to mitigate the currency risk of adverse currency movements on foreign currency denominated transactions, the Company's policy is to economically hedge all foreign currency transactions where material, using financial instruments where appropriate. The Company has not designated any derivatives for hedge accounting in the current or prior periods. Currency transactions are recorded and monitored in the treasury management system.

Directors' report for the year ended 31 March 2025 (continued)

Financial risk management *(continued)*

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations to the Company, which would result in a loss for the Company. Credit risk arises primarily from trade and other receivables and derivative financial instruments.

Credit risk management includes performing credit checks on non-government commercial customers and setting and only performing financial transactions with approved investment grade counterparties.

The loss allowances for intercompany financial assets are based on assumptions on risk of default and expected loss rates. The Company recognises an allowance for expected credit losses based on the

difference between contractual cashflows due in accordance with the contract and all the cash flows that the Company expects to receive.

Employment of disabled persons

As a Group we achieved Level 2 accreditation in the UK Government's Disability Confident scheme and are working towards Level 3, demonstrating our commitment to attracting, recruiting, on-boarding and retaining disabled people and those with caring responsibilities, and supporting them in the workplace to achieve their full potential.

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.

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 page 85 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 9 of the Strategic Report.

Safety policy

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

Directors' report for the year ended 31 March 2025 (continued)

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 2025 of its ultimate parent, Babcock International Group PLC.

Engagement with suppliers and customers

Engagement with suppliers and customers has been considered in the Strategic Report on pages 7 to 8.

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.

Events after the reporting period

The Group intends to continue progressing the legal entity rationalisation project across the year ended 31 March 2026. This will see the trade and assets of further Babcock legal entities brought into Babcock Land Defence Limited over the coming years.

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

Following appointment as Independent Auditor of the Company last year, Forvis Mazars LLP is willing to continue in office. A resolution to reappoint Forvis Mazars LLP as Independent Auditor has been proposed and approved by the Audit Committee.

Directors' report for the year ended 31 March 2025 (continued)

Directors' responsibility statement

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 Group's website, where specifically regarding the entity of which they are a Director. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

This report was approved by the board on 30th January 2026 and signed on its behalf by:



Paul Edwards
Director
30th January 2026

Independent auditor's report to the members of Babcock Land Defence Limited

Opinion

We have audited the financial statements of Babcock Land Defence Limited (the 'company') for the year ended 31 March 2025 which comprise the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity and notes to the financial statements, including material accounting policy information.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the "Auditor'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 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 gives

Independent auditor's report to the members of Babcock Land Defence Limited (continued)

rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 17, 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.

Independent auditor's report to the members of Babcock Land Defence Limited (continued)

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 the financial statements.

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

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.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment (including health and safety), data protection, anti-bribery, anti-fraud, anti-corruption, anti-money laundering, national security, fair trading, environmental, import and export controls and government contracting and procurement regulations and conditions.

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as financial reporting legislation (including related company legislation such as the Companies Act 2006), pensions legislation and taxation legislation.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to contract revenue and margin recognition on contracts with indicators of heightened audit risk and the associated accounting for contract assets, contract liabilities, provisions, contingent assets and contingent liabilities, and significant one-off or unusual transactions.

Independent auditor's report to the members of Babcock Land Defence Limited (continued)

Our audit procedures in relation to fraud included but were not limited to:


- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

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

Use of the audit 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.


[Valerie Levi \(Jan 30, 2026 17:54:00 GMT\)](#)

**Valerie Levi (Senior Statutory Auditor)
for and on behalf of Forvis Mazars LLP**

Forvis Mazars LLP
One St Peters Square
Manchester
M2 3DE
30th January 2026

Income statement for the year ended 31 March 2025

| | Note | 2025 £'000 | 2024 £'000 |
|---|------|-----------------------------|---------------|
| Revenue | 4 | 371,371 | 296,024 |
| Cost of revenue | | (280,860) | (237,815) |
| Gross profit | | 90,511 | 58,209 |
| Administrative expenses | | (56,402) | (56,827) |
| Operating profit | 5 | 34,109 | 1,382 |
| Finance costs | 6 | (1,730) | (1,105) |
| Finance income | 6 | 1,065 | 656 |
| Other finance income – pensions | 23 | 689 | 603 |
| Profit before taxation | | 34,133 | 1,536 |
| Income tax expense | 10 | (7,058) | (2,237) |
| Profit/(loss) for the financial year | | 27,075 | (701) |

The notes on pages 26 to 66 form part of these financial statements.

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2025

| | Note | 2025 £'000 | 2024 £'000 |
|--|-------------|-----------------------------|-----------------------------|
| Profit/(loss) for the financial year | | 27,075 | (701) |
| Other comprehensive income/(expense): | | | |
| <i>Items that will not be subsequently reclassified to income statement:</i> | | | |
| Loss on re-measurement of net defined benefit obligation | 23 | (3,457) | (5,322) |
| Tax credit on net defined benefit obligation | 10 | 864 | 1,331 |
| | | (2,593) | (3,991) |
| Total comprehensive income/(expense) for the financial year | | 24,482 | (4,692) |

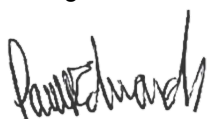
Statement of financial position as at 31 March 2025

| | Note | 2025 £'000 | 2024 *Restated £'000 |
|--|------|----------------|----------------------------|
| Non-current Assets | | | |
| Intangible assets | 11 | 1,159 | 590 |
| Property, plant and equipment | 12 | 1,366 | 671 |
| Right-of-use assets | 13 | 6,987 | 10,840 |
| Trade and other receivables | 16 | - | 13,778 |
| Retirement benefit surpluses | 23 | 12,136 | 14,851 |
| | | 21,648 | 40,730 |
| Current assets | | | |
| Inventories | 15 | 8,856 | 17,232 |
| Trade and other receivables | 16 | 155,088 | 95,613 |
| Cash and cash equivalents | | 107 | 573 |
| | | 164,051 | 113,418 |
| Current liabilities | | | |
| Trade and other payables | 17 | (147,965) | (177,742) |
| Lease Liabilities | 13 | (2,619) | (5,047) |
| Provisions for liabilities | 18 | (8,921) | (14,542) |
| Net current assets/(liabilities) | | 4,546 | (83,913) |
| Total assets less current liabilities | | 26,194 | (43,183) |
| Non-current liabilities | | | |
| Lease liabilities | 13 | (684) | (3,924) |
| Deferred tax liabilities | 10 | (1,347) | (2,679) |
| Provisions for liabilities | 18 | (111) | (644) |
| Net assets/(liabilities) | | 24,052 | (50,430) |
| Capital and reserves | | | |
| Called up share capital | 19 | - | - |
| Share premium account | 19 | 97,619 | 47,619 |
| Retained losses | | (73,567) | (98,049) |
| Total shareholders' funds/(deficit) | | 24,052 | (50,430) |

The notes on pages 26 to 66 are an integral part of these financial statements.

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 24.

The financial statements on pages 22 to 66 were approved by the board of Directors on 30th January 2026 and signed on its behalf by:



P Edwards
Director

Statement of changes in equity as at 31 March 2025

| | Called up share capital | Share premium | Accumulated losses | Total Shareholders' funds |
|------------------------------------|-------------------------------|------------------|-----------------------|---------------------------------|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 April 2023 | - | 47,619 | (93,357) | (45,738) |
| Loss for the financial year | - | - | (701) | (701) |
| Other comprehensive loss | - | - | (3,991) | (3,991) |
| Total comprehensive expense | - | - | (4,692) | (4,692) |
| Balance at 31 March 2024 | - | 47,619 | (98,049) | (50,430) |
| Allotment of shares | - | 50,000 | - | 50,000 |
| Profit for the financial year | - | - | 27,075 | 27,075 |
| Other comprehensive loss | - | - | (2,593) | (2,593) |
| Total comprehensive income | - | 50,000 | 24,482 | 74,482 |
| Balance at 31 March 2025 | - | 97,619 | (73,567) | 24,052 |

Notes to the financial statements

1 General Information

Babcock Land Defence Limited (the Company) is a private company limited by shares, which is incorporated and domiciled in England and Wales, UK. 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 material accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented.

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Where relevant, equivalent disclosures have been given in the group accounts of Babcock International Group PLC.

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

The Company is a wholly owned subsidiary of Babcock Land Limited and is included in the consolidated financial statements of Babcock International Group PLC which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions have been taken:

- a) 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'

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Basis of preparation (continued)

- 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.

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2024 and did not have a material impact on the financial statements:

- *Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements:* These amendments add disclosure objectives to IAS 7 about supplier finance arrangements that enable users to assess the effect of such arrangements on the Company's liabilities and cash flows. Additionally, the amendments revise IFRS 7 to add supplier finance arrangements as an example of liquidity risk within financial risk management. The Company does not currently participate in any supplier finance arrangements and therefore these amendments have had no impact on the current or prior period Income Statement or Statement of Financial Position.
- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current:* These amendments affect only the presentation of liabilities as current or non-current in the statement of financial position.
- *Amendments to IAS 1 – Non-current Liabilities with Covenants:* These amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current).
- *Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback:* These amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date.

Going concern

The Company's business activities, principal risks and financial position are set out within the Strategic Report. In addition, the Directors' Report includes factors likely to affect its future development and 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 its parents and fellow subsidiaries. The Company is in a net current asset position of £4.5m. 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 (UK) Holdings Limited, a fellow subsidiary of the ultimate parent company Babcock international Group PLC, confirming this position. In completing this analysis, the Directors have considered the ability of Babcock (UK) Holdings Limited to provide such finance.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Going concern (continued)

Following review, the directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The directors have not identified 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.

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.

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 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.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Revenue (continued)

(b) Determination and allocation of contract price to performance obligations

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 (d) 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 once the underlying uncertainty is resolved. 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. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that reversal of cumulative revenue including such variable consideration is not considered to be highly probable.

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.

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.

(c) 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.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Revenue (continued)

(c) Revenue and profit recognition (continued)

Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Where the Company satisfies performance obligations over time, the Company primarily uses an input method to measure satisfaction of each performance obligation based on costs incurred compared to total estimated contract costs. For the majority of the Company's contracts, this is deemed to be the most appropriate method to measure the Company'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 amount of revenue recognised by the Company (as measured by the methods described above) exceeds the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (g) 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.

Termination clauses contained within contracts

Per IFRS 15, 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 that the contract term is determined to be the full legal term of the contract.

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.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Revenue (continued)

(c) Revenue and profit recognition (continued)

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.

(d) Contract modifications

Claims and variations

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

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

These contract claims and variations are modifications as described 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).

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Revenue (continued)

(d) Contract modifications (continued)

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.

(e) Costs of obtaining a contract

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 and amortised on a straight-line basis. 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.

(f) Costs to fulfil a contract

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.

(g) 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.

Government Grants – Research and Development Expenditure Credit (RDEC)

RDEC is accounted for as a government grant under IAS20. It is recognised at fair value where there is reasonable assurance that the grant will be received, and the Company complies with the attached conditions.

The credit is recognised in the period in which the qualifying expenditure is incurred and is presented as a reduction in the related expense.

Finance income

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

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

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.

Employee benefits

a) Pension obligations

Defined benefit schemes

The Company 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.

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using 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 end of the reporting date less the fair value of the plan assets at the reporting date.

Defined contribution schemes

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.

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.

b) Share-based compensation

The Group operates equity-settled, share-based compensation plans of which the Company is a member. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models. The charge is recognised in the income statement over the vesting period of the award.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Employee benefits (continued)

c) Holiday pay

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

Taxation

a) Current income tax

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

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

b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the 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.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Intangible assets

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

a) Acquired intangibles

Acquired intangibles are the estimated fair value of customer relationships and brands which are in part contractual, represented by the value of the acquired order book, and in part non-contractual, represented by the risk adjusted value of future orders expected to arise from the relationships.

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 periods, reflecting the lengths of the various contracts, are mainly in the range one year to five years, with a minority of contracts and hence amortisation periods, up to fifteen years.

The carrying value of the non-contracted element is amortised over the period in which it is estimated that the relationships are likely to bring economic benefit via future orders. The method of amortisation is tailored to the expectations of the timing of the receipt of specific future orders and therefore the charge to the income statement matches the timing of value likely to be generated in those years.

Relationships are valued on a contract by contract and customer by customer basis and the pattern of amortisation reflects the expected pattern of benefit in each case.

The amortisation profile is determined on a case-by-case basis and in all cases results in a front-loaded profile, reflecting the greater certainty of future orders in the near term compared with the longer term. The amortisation period is in the range one year to fifteen years.

b) Software

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 three and seven years. The Group is implementing an ERP system in phases over several years. The ERP system is being amortised over a period of up to 13 years to coincide with the expected support period from the software provider. The core asset commenced amortisation when it was available for use, which occurred once implementation was completed. Additional capitalisation for improved functionality as the platform is tailored and deployed at each respective business unit commences amortisation when those improved functionalities are available for use (when the ERP is implemented at the respective business unit).

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 but not exceeding seven years.

Impairment of non-current assets

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

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Impairment of non-current assets (continued)

The recoverable amount is the higher of fair value less costs of disposal, and value-in-use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Company income statement.

Where an impairment loss on other non-financial non-current assets subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised in prior years. Goodwill impairments are not subsequently reversed.

Property, plant, and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment, except for land, which is shown at cost less impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of property, plant and equipment over the estimated useful lives to their estimated residual value (reassessed at each statement of financial position 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.

Leases

(a) The Company as lessee

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

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

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.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Leases (continued)

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'.

Investments

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

Inventory

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

Cash and cash equivalents

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

Trade and other receivables

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

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Company applies the IFRS 9 general approach to measuring expected credit losses for all amounts due from group undertakings.

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.

Current intercompany trade receivables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due from group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans receivable at the statement of financial position date that are expected to be settled within twelve months after the reporting date, are recorded as current assets.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Trade and other receivables (continued)

The loss allowances for intercompany financial assets are based on assumptions on risk of default and expected loss rates. The Company recognises an allowance for expected credit losses based on the difference between contractual cashflows due in accordance with the contract and all the cash flows that the Company expects to receive.

Trade and other payables

Trade and other payables are stated at actual cost, or estimated cost in respect of accruals.

Current intercompany trade payables are expected to be settled in the Company's usual operating cycle of 12 months or less and relate to balances due in the normal course of business.

Amounts due to group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans payable at the statement of financial position date where the Company does not have a right to defer settlement by at least twelve months after the reporting date, are recorded as current liabilities.

Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation 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.

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. Onerous contract provisions are recognised after impairment of any assets directly related to the onerous contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Group incurring further costs.

Provisions for onerous revenue contracts are recorded when it becomes probable that total remaining contract fulfilment costs will exceed total remaining revenue not yet recognised. Provisions for losses on contracts are recognised after impairment of any assets directly related to fulfilling the loss-making contract. Losses are determined based on estimated results on completion of contracts and are updated regularly.

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 legal costs is recognised where there is an ongoing legal dispute where professional legal services have been instructed and therefore fees will be payable and/or settlement required.

A provision for finance lease costs relates to the former MHE supplier, Briggs, whose contract ended at the end of FY25. The provision covers potential costs charged to the Company after contract closure, once the assets have been collected and inspected, for any damage or condition beyond normal wear and tear.

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 25 for details of contingent liabilities.

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.

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 statement of financial position are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

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

Dividends

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

Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

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

Notes to the financial statements (continued)

2 Summary of material accounting policies (continued)

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 2023 have been corrected by cumulatively restating the impacted statement of financial position line item, including retained earnings, at 1 April 2023.

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 amount 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. Details of the Company's key judgements involving estimates are included in the key sources of estimation uncertainty section.

Acting as Principal or Agent

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 with both principal and agent conclusions being reached across the Company's portfolio of revenue arrangements. Any changes in this judgement would not have a material impact on profit, although there may be a material impact to revenue and operating costs.

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*

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Critical accounting judgements (continued)

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.

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 following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Company's contracts with customers:

- *Stage of completion & costs to complete* – 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.
- *Variable consideration* – the Company's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- *Inflation* – The level to which the Company's revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the revenue and cost of contract delivery to be greater than was expected at the time of contracting. The Company's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials. The Company endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

The above assumptions all impact upon each individual contract to varying extents depending on the risk profile of the contract and the individual contract terms and conditions. As such sensitivities to these assumptions are not provided as to do so is not considered practicable. It is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from the assumption could require a material adjustment to the carrying amount of any contract assets and liabilities affected. The carrying amount of the contract assets and liabilities can be found in the Trade and other receivables disclosure (note 16) and the Trade and other payables disclosure (note 17).

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Defined benefit pension scheme

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 and life expectancy 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.

Although the Company anticipates that scheme surpluses will be utilised during the life of the schemes to address member benefits, the Company recognises its retirement benefit surpluses in respect of schemes in surplus, on the basis that it is management's judgement that there are no substantive restrictions on the return of residual scheme assets in the event of a winding-up of the scheme after all member obligations have been met. The Company also considers that the trustees do not have the power to unilaterally wind-up the schemes or vary benefits. Further information on the key assumptions and sensitivities is included in note 23.

4 Revenue

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

| | 2025 | 2024 |
|--|----------------|--------------|
| | £'000 | £'000 |
| Revenue: | | |
| Provision of services - transferred over time | 174,284 | 138,204 |
| Provision of services - transferred at a point in time | 171,338 | 136,647 |
| Sale of goods | 25,749 | 21,173 |
| | 371,371 | 296,024 |

All the revenue in the year ending 31 March 2025 and 2024 originated in the United Kingdom.

5 Operating profit

Operating profit is stated after charging / (crediting):

| | 2025 | 2024 |
|--|----------------|------------------|
| | £'000 | £'000 |
| | | *Restated |
| Amortisation of intangible assets (note 11) | 131 | 259 |
| Depreciation of property, plant and equipment (note 12) | 1,491 | 748 |
| (Profit)/loss on disposal of fixed assets | (212) | 2,428 |
| Depreciation – right of use assets (note 13) | 1,966 | 3,516 |
| Loss/(profit) on disposal of right of use assets (note 13) | 177 | (2,378) |
| Interest on lease liabilities (note 6) | 325 | 637 |
| Operating lease charges – low value leases (note 13) | - | 8 |
| Cost of inventories recognised as an expense | 43,924 | 29,120 |
| Net foreign exchange losses | 40 | 142 |
| Research and development costs charged as an expense | 3,648 | 509 |
| Research and development expenditure credit (RDEC) | (547) | - |
| Staff costs (note 7) | 150,286 | 130,022 |
| Audit fees payable to the Company's auditor | 379 | 258 |

Notes to the financial statements (continued)

5 Operating profit (continued)

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

Included in audit services payable above are fees payable for the audit of Babcock Land Limited £nil (2024: £159,000) that have been borne by the Company.

*The note for the year ended 31 March 2024 has been restated to include the disclosure of share-based payments within the staff costs and disclose the (profit)/loss on disposal of right of use assets.

6 Finance costs and income

| Finance costs | 2025 | 2024 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Bank interest paid | - | (12) |
| Interest on amounts due to group undertakings | (1,405) | (569) |
| Interest on lease liabilities | (325) | (524) |
| | <u>(1,730)</u> | <u>(1,105)</u> |
| Finance income | | |
| Loan interest received from group undertakings | 1,065 | 656 |
| | <u>1,065</u> | <u>656</u> |

7 Staff costs

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

| | 2025 | 2024 |
|-------------------------------|---------------|---------------|
| By Activity: | Number | Number |
| Operations | 2,507 | 2,469 |
| Management and administration | 413 | 111 |
| | <u>2,920</u> | <u>2,580</u> |

Their aggregate remuneration comprised:

| | 2025 | 2024 |
|--|----------------|----------------|
| | £'000 | £'000 |
| | | *Restated |
| Wages and salaries | 119,366 | 101,109 |
| Social security costs | 13,052 | 12,975 |
| Pension costs – defined contribution plans (Note 23) | 16,084 | 13,445 |
| Pension costs – defined benefit plans (Note 23) | 414 | 1,152 |
| Share based payments (Note 9) | 1,370 | 1,341 |
| | <u>150,286</u> | <u>130,022</u> |

Notes to the financial statements (continued)

7 Staff costs (continued)

During the year, the average number of employees recharged from other Babcock entities was 73 (2024: 100), to other Babcock entities was 20 (2024:20). The total cost recharged from other Babcock entities included in the above was £3,748,000 (2024: £3,425,000), to other Babcock entities £1,226,000 (2024: £661,000).

*The note for the year ended 31 March 2024 has been restated to include the disclosure of share-based payments.

8 Directors' emoluments

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

| | 2025 | 2024 |
|---|--------------|-------|
| | £'000 | £'000 |
| Remuneration (including benefits-in-kind) | 925 | 1,087 |
| Defined contribution pension schemes | 38 | 102 |
| | 963 | 1,189 |

During the year one (2024: one) Director remunerated by Babcock Land Defence Limited exercised share options under long term incentive plans and three (2024: four) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Directors (2024: none) under the company defined benefit pension scheme.

Retirement benefits are accruing to three Directors under defined contribution schemes (2024: five). The total value of Company contributions paid to the scheme during the year in respect of Directors' qualifying services was £38k (2024: £102k).

Seven directors held office at some point during the year and up to date of signing the annual report. Except for three (2024: five) 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 amounts include the following in respect of the highest paid Director:

| | 2025 | 2024 |
|--|--------------|-------|
| | £'000 | £'000 |
| Remuneration (excluding pension contributions) | 387 | 262 |
| Defined contribution pension schemes | 10 | 29 |
| | 397 | 291 |

The highest paid Director exercised shares under long term incentive plans (2024: exercised shares under long term incentive plans).

Notes to the financial statements (continued)

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, which does not form part of this report.

During the year the total charge relating to employee share-based payment plans was £1,370,000 (2024: £1,341,000) all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £1,028,000 (2024: £1,006,000)

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

Performance Share Plan (PSP) and Deferred Bonus Plan (DBP)

| | 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 |
|----------|------------------------|---|-----------------------|-------------------|--|-----------------------------------|---|---------------|----------------------------|
| 2024 DBP | 93,254 | 523 | - | 4.0 | 100.0% | - | 523 | - | 01/08/24 |
| 2024 DBP | 162,444 | 523 | - | 2.0 | 100.0% | - | 523 | - | 01/08/24 |
| 2024 PSP | 1,799,822 | 523 | - | 4.0 | 100.0% | - | 523 | - | 01/08/24 |
| 2024 PSP | 1,887,244 | 523 | 31.5% | 4.0 | 100.0% | - | 470 | - | 01/08/24 |
| 2024 PSP | 70,742 | 523 | 31.5% | 6.0 | 100.0% | - | 470 | - | 01/08/24 |
| 2024 PSP | 61,772 | 510 | - | 4.0 | 100.0% | - | 510 | - | 02/12/24 |
| 2024 PSP | 4,860 | 510 | - | 2.0 | 100.0% | - | 510 | - | 02/12/24 |
| 2024 PSP | 14,582 | 510 | - | 3.0 | 100.0% | - | 510 | - | 02/12/24 |
| 2023 PSP | 1,259,675 | 371 | 32.6% | 4.0 | 100.0% | - | 334 | - | 01/08/23 |
| 2023 PSP | 1,234,901 | 371 | - | 4.0 | 100.0% | - | 371 | - | 01/08/23 |
| 2023 PSP | 737,280 | 371 | 32.6% | 6.0 | 100.0% | - | 334 | - | 01/08/23 |
| 2023 PSP | 78,571 | 413 | 32.0% | 6.0 | 100.0% | - | 372 | - | 29/09/23 |
| 2023 PSP | 822,036 | 413 | - | 6.0 | 100.0% | - | 413 | - | 29/09/23 |
| 2023 PSP | 42,077 | 385 | - | 3.0 | 100.0% | - | 385 | - | 15/12/23 |
| 2023 PSP | 127,553 | 385 | - | 4.0 | 100.0% | - | 385 | - | 15/12/23 |
| 2023 PSP | 131,707 | 385 | 32.0% | 6.0 | 100.0% | - | 347 | - | 15/12/23 |
| 2023 DBP | 129,095 | 371 | - | 4.0 | 100.0% | - | 371 | - | 01/08/23 |
| 2023 DBP | 179,247 | 371 | - | 2.0 | 100.0% | - | 371 | - | 01/08/23 |
| 2022 PSP | 2,302,009 | 351 | 19.0% | 4.0 | 100.0% | - | 351 | - | 01/08/22 |
| 2022 PSP | 613,078 | 351 | 19.0% | 6.0 | 100.0% | - | 316 | - | 01/08/22 |
| 2022 PSP | 806,511 | 351 | 19.0% | 6.0 | 100.0% | 169 | 316 | 55.0% | 01/08/22 |
| 2022 DBP | 218,895 | 351 | 19.0% | 4.0 | 100.0% | - | 351 | - | 01/08/22 |
| 2022 DBP | 551,420 | 351 | 19.0% | 2.0 | 100.0% | - | 351 | - | 01/08/22 |
| 2021 PSP | 769,165 | 372 | 19.0% | 6.0 | 100.0% | 149 | 316 | 55.0% | 24/08/21 |
| 2021 PSP | 626,704 | 380 | 19.0% | 6.0 | 100.0% | - | 325 | - | 24/09/21 |
| 2021 PSP | 1,780,849 | 380 | 19.0% | 4.0 | 100.0% | - | 380 | - | 24/09/21 |
| 2021 DBP | 45,312 | 380 | 19.0% | 4.0 | 100.0% | - | 380 | - | 24/09/21 |
| 2020 PSP | 695,458 | 350 | 19.0% | 6.0 | 100.0% | - | 305 | - | 01/12/20 |
| 2020 PSP | 2,091,247 | 350 | 19.0% | 4.0 | 100.0% | - | 350 | - | 01/12/20 |
| 2020 PSP | 1,341,477 | 350 | 19.0% | 6.0 | 100.0% | 137.9 | 305 | 55.0% | 01/12/20 |
| 2020 DBP | 118,320 | 289 | 19.0% | 4.0 | 100.0% | - | 289 | - | 03/08/20 |
| 2020 DBP | 192,096 | 284 | 19.0% | 4.0 | 100.0% | - | 284 | - | 13/08/20 |

Notes to the financial statements (continued)

9 Share based payments (continued)

All awards have an exercise price of £nil and as such the weighted average exercise price for shares granted, exercised, forfeited and outstanding are all £nil.

The vesting period and the expected life of PSP awards are between one and three years. The vesting period and expected life of DBP awards was one year for awards made in August 2022 and two years for previous, other than for Executives where the vesting period is three years. The holders of all awards receive dividends.

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.

For PSP awards made in August 2022, 3,318,343 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 403,255 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

For PSP awards made in August to December 2023, 3,611,764 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 822,036 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG.

For PSP awards made in August to December 2024, 1,881,036 were made via the use of restricted shares with a three-year to five year vesting period. There are no performance conditions attached. A further 1,957,986 awards were made where the performance criteria is 30% against free cash flow, 30% underlying operating margin, 25% organic revenue growth and 15% ESG

There are no performance conditions attached to the DBP.

Notes to the financial statements (continued)

10 Tax

Income tax expense

| | Year ended 31 March 2025 | Year ended 31 March 2024 |
|---|--------------------------------|--------------------------------|
| | £'000 | £'000 |
| Analysis of tax expense in the year | | |
| Current tax | | |
| Group relief for consideration | 7,503 | - |
| Adjustment in respect of prior periods | 25 | - |
| Current tax charge for the year | 7,528 | - |
| Deferred tax | | |
| Origination and reversal of timing differences | 1,253 | 2,237 |
| Adjustment in respect of deferred tax for prior years | (1,723) | - |
| Total income tax expense | 7,058 | 2,237 |

Tax benefit to the statement of comprehensive income

| | Year ended 31 March 2025 | Year ended 31 March 2024 |
|---|--------------------------------|--------------------------------|
| | £'000 | £'000 |
| Tax credit on net defined benefit obligation | 864 | 1,331 |
| Total income tax benefit to other comprehensive income | 864 | 1,331 |

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

| | Year ended 31 March 2025 | Year ended 31 March 2024 |
|--|--------------------------------|--------------------------------|
| | £'000 | £'000 |
| Profit before tax | 34,133 | 1,536 |
| Profit on ordinary activities multiplied by rate of corporation tax in the UK of 25% (2024: 25%) | 8,533 | 384 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 223 | - |
| Group relief claimed for nil consideration | - | 1,853 |
| Prior year adjustments – current tax | 25 | - |
| Adjustments in respect of deferred tax for prior years | (1,723) | - |
| Total income tax expense | 7,058 | 2,237 |

Notes to the financial statements (continued)

10 Tax (continued)

In July 2023, the UK enacted legislation to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting and a UK qualified domestic minimum top-up tax. The legislation applies to the Company with effect from 1 April 2024. Under the Pillar Two rules, a top-up tax liability arises where the effective tax rate of the Company and its fellow subsidiaries in the same jurisdiction is below 15%. The Company has applied the temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

The Company does not expect to have a Pillar Two tax liability for the period.

Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances have been calculated at 25%.

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right 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 2025 £'000 | 31 March 2024 £'000 |
|------------------------|------------------------------------|---------------------------|
| Deferred tax liability | <u>(1,347)</u> | <u>(2,679)</u> |
| | (1,347) | (2,679) |

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 2024 | (1,181) | 3,712 | 148 | 2,679 |
| Income statement debit/(credit) | 339 | 186 | (993) | (468) |
| Tax credit to other comprehensive income | - | (864) | - | (864) |
| At 31 March 2025 | (842) | 3,034 | (845) | 1,347 |
| At 1 April 2023 | (1,264) | 2,824 | 213 | 1,773 |
| Income statement debit/(credit) | 83 | 2,219 | (65) | 2,237 |
| Tax credit to other comprehensive income | - | (1,331) | - | (1,331) |
| At 31 March 2024 | <u>(1,181)</u> | <u>3,712</u> | <u>148</u> | <u>2,679</u> |

Deferred tax liabilities have been recognised in respect of advanced capital allowances, reversal of pension surplus and other small timing differences.

The directors are of the opinion that the Company will generate suitable taxable profits from which the future reversal of the timing difference can be deducted.

Notes to the financial statements (continued)

11 Intangible assets

| | Software £'000 | Development costs £'000 | Acquired contract intangible £'000 | Assets under construction £'000 | Total £'000 |
|-------------------------------------|-------------------|-------------------------------|---|--|-----------------|
| Cost | | | | | |
| At 1 April 2024 | 13,886 | 392 | 140,951 | 109 | 155,338 |
| Additions | - | - | - | 700 | 700 |
| Disposals | (764) | - | (140,951) | (109) | (141,824) |
| At 31 March 2025 | 13,122 | 392 | - | 700 | 14,214 |
| Accumulated amortisation | | | | | |
| At 1 April 2024 | (13,405) | (392) | (140,951) | - | (154,748) |
| Amortisation | (131) | - | - | - | (131) |
| Disposals | 873 | - | 140,951 | - | 141,824 |
| At 31 March 2025 | (12,663) | (392) | - | - | (13,055) |
| Net book value | | | | | |
| At 31 March 2025 | 459 | - | - | 700 | 1,159 |
| At 31 March 2024 | 481 | - | - | 109 | 590 |

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 was 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. There is no remaining amortisation period. The contractual right has ended on 31 March 2025 and therefore disposal has been triggered in the year.

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

Presented within Software, there is a material ERP system asset which is being amortised over a period of up to 13 years to coincide with the expected support period from the software provider. The core asset commenced amortisation when it was available for use, which occurred once implementation was completed. Additional capitalisation for improved functionality as the platform is tailored and deployed at each respective business unit commences amortisation when those improved functionalities are available for use (when the ERP is implemented at the respective business unit). The net book value of the asset is £459k, with a remaining amortisation period of 6 years.

Notes to the financial statements (continued)

12 Property, plant, and equipment

| | Plant & equipment £'000 | Assets under construction £'000 | Total £'000 |
|---------------------------------|-------------------------------|---------------------------------------|-----------------|
| Cost | | | |
| At 1 April 2024 | 16,083 | 448 | 16,531 |
| Additions | 1,531 | 708 | 2,239 |
| Transfer from AUC | 403 | (403) | - |
| Disposals | (15) | (49) | (64) |
| At 31 March 2025 | 18,002 | 704 | 18,706 |
| Accumulated depreciation | | | |
| At 1 April 2024 | (15,860) | - | (15,860) |
| Charge for the year | (1,491) | - | (1,491) |
| Disposals | 11 | - | 11 |
| At 31 March 2025 | (17,340) | - | (17,340) |
| Net book value: | | | |
| At 31 March 2025 | 662 | 704 | 1,366 |
| At 31 March 2024 | 223 | 448 | 671 |

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 £'000 | Plant & machinery £'000 | Motor vehicles £'000 | Total £'000 |
|---------------------------------|-------------------|----------------------------|----------------------------|-----------------|
| Cost | | | | |
| At 1 April 2024 | 885 | 1,776 | 20,851 | 23,512 |
| Additions | 34 | - | 1,112 | 1,146 |
| Disposals | - | (1,776) | (1,730) | (3,506) |
| Group transfer | - | - | (3,481) | (3,481) |
| At 31 March 2025 | 919 | - | 16,752 | 17,671 |
| Accumulated depreciation | | | | |
| At 1 April 2024 | (196) | (1,776) | (10,700) | (12,672) |
| Charge for the year | (48) | - | (1,918) | (1,966) |
| Disposals | - | 1,776 | 1,041 | 2,817 |
| Group transfer | - | - | 1,137 | 1,137 |
| At 31 March 2025 | (244) | - | (10,440) | (10,684) |
| Net book value: | | | | |
| At 31 March 2025 | 675 | - | 6,312 | 6,987 |
| At 31 March 2024 | 689 | - | 10,151 | 10,840 |

Some of the vehicle leases transferred to Babcock Corporate Services in the year, another Group company. This Group-wide decision was made to simplify the management of the leases and improve the accuracy with regular movement of staff around the Group companies. The costs relating to individual legal entities are now recharged out monthly to the relevant legal entities around the Group.

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:

| | 2025 £'000 | 2024 £'000 |
|-------------------------------|---------------|---------------|
| At 1 April | 8,971 | 13,432 |
| Additions | 1,609 | 1,472 |
| Disposals | - | (1,975) |
| Group transfer | (2,693) | - |
| Interest charged | 325 | 637 |
| Payments | (4,909) | (4,595) |
| Closing as at 31 March | 3,303 | 8,971 |

Discounted future minimum lease payments are as follows:

| | 2025 £'000 | 2024 £'000 |
|---|---------------|---------------|
| Within one year | 2,619 | 5,047 |
| In more than one year, but not more than five years | 684 | 3,924 |
| Carrying value of liability | 3,303 | 8,971 |

The Company had total cash outflows for leases of £4,909k for the year ended 31 March 2025 (2024: £4,595k).

The following are the amounts recognised in profit or loss:

| | 2025 £'000 | 2024 *Restated £'000 |
|---|---------------|----------------------------|
| Expense relating to low value leases | - | 8 |
| Depreciation expense on right to use assets | 1,966 | 3,516 |
| Interest expense on lease liabilities | 325 | 637 |
| | 2,291 | 4,161 |

*The year ended 31 March 2024 has been restated to also disclose the depreciation expense on right of use assets and the interest expense on lease liabilities. This restatement has been made to provide a comparative for the disclosed amounts at the year ended 31 March 2025.

Notes to the financial statements (continued)

14 Investments

| | 2025 Shares in group undertakings £ | 2024 Shares in group undertakings £ |
|------------------------------------|---|---|
| Cost | | |
| At 1 April | 1 | 1 |
| Carrying amount at 31 March | 1 | 1 |

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

15 Inventories

| | 2025 £'000 | 2024 £'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 8,856 | 17,232 |
| | 8,856 | 17,232 |

Inventories are stated after provisions for impairment of £11,964,000 (2024: £11,193,000).

During the year, the Company recognised inventory write-downs of £770,484 (2024: reversal £544,593) within cost of sales, primarily relating to excess raw materials and consumables.

The cost of inventory recognised as an expense and included in 'cost of revenue' amounted to £43,924,000 (2024: £29,120,000).

16 Trade and other receivables

| | 2025 £'000 | 2024 £'000 |
|------------------------------------|---------------|---------------|
| Non-current assets | | |
| Amounts owed by Group undertakings | - | 13,778 |
| | - | 13,778 |

In November 2024, the Company took part in a group wide loan rationalisation process which involved the netting of intercompany payable and receivable balances across the Group.

Notes to the financial statements (continued)

16 Trade and other receivables (continued)

| | 2025 | 2024 |
|-------------------------------------|----------------|--------------------|
| | £'000 | *Restated £'000 |
| Current assets | | |
| Trade receivables | 58,456 | 50,522 |
| Contract assets | 49,664 | 33,474 |
| Amounts due from Group undertakings | 43,209 | 7,702 |
| Other receivables | 1,861 | 1,439 |
| Prepayments | 1,898 | 2,476 |
| | 155,088 | 95,613 |

Trade receivables are stated after provisions for impairment of £191,000 (2024: £nil).

Amounts due from group undertakings includes the following:

- No loans (2024: one loan of £12,676,000 is due for repayment in five years, with a floating interest rate of 3 months LIBOR + 1.5%).
- All other amounts due from Group undertakings are unsecured and repayable on demand.

Current intercompany receivables are expected to be settled in the company's usual operating cycle of 12 months or less and relate to the balance due in the normal course of business.

Other receivables primarily comprise of a tax refund due for the Research and Development Expenditure Credit (RDEC) return filed.

The Company recognises that there is an inherent element of estimation uncertainty and judgement involved in assessing contract profitability, as disclosed in note 3. Management have taken a best estimate view of contract outcomes based on the information currently available, after allowing for contingencies, and have applied a constraint to the variable consideration within revenue resulting in a revenue estimate that is suitably cautious under IFRS 15.

Significant changes in contract assets during the year are as follows:

| | £'000 |
|---|---------------|
| At 1 April 2024 *restated | 33,474 |
| Transfers from contract assets recognised at the beginning of the year to trade receivables | (33,474) |
| Increase due to work done not transferred from contract assets | 49,664 |
| At 31 March 2025 | 49,664 |
| | £'000 |
| At 1 April 2023 | 18,214 |
| Transfers from contract assets recognised at the beginning of the year to trade receivables | (18,214) |
| Increase due to work done not transferred from contract assets | 33,474 |
| At 31 March 2024 *restated | 33,474 |

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 24.

Notes to the financial statements (continued)

17 Trade and other payables

| | 2025 | 2024 |
|------------------------------------|----------------|--------------------|
| | £'000 | *Restated £'000 |
| Current liabilities | | |
| Trade creditors | 24,121 | 10,504 |
| Amounts due to Group undertakings | 17,775 | 50,541 |
| Contract liabilities | 24,727 | 22,385 |
| Other taxation and social security | 10,508 | 454 |
| Goods received not invoiced | 15,269 | 20,208 |
| Accruals and other payables | 55,565 | 73,650 |
| | 147,965 | 177,742 |

All amounts due to group undertakings are trading balances expected to be settled in the company's usual operating cycle of 12 months or less.

In the prior year, the Company had access to the Babcock International Group PLC overdraft facility, and along with fellow group undertakings provided cross-guarantees in relation to this facility. These were cancelled in the period to 31 March 2025 (Note 25).

Significant changes in contract liabilities during the year are as follows:

| | Contract liabilities |
|---|-----------------------------|
| | £'000 |
| At 1 April 2024 *restated | 22,385 |
| Revenue recognised that was included in contract liabilities at the beginning of the year | (22,385) |
| Increase due to cash received, excluding amounts recognised as revenue | 24,727 |
| At 31 March 2025 | 24,727 |
| At 1 April 2023 | 42,810 |
| Revenue recognised that was included in contract liabilities at the beginning of the year | (35,327) |
| Increase due to cash received, excluding amounts recognised as revenue | 14,902 |
| At 31 March 2024 *restated | 22,385 |

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 24.

Notes to the financial statements (continued)

18 Provisions for Liabilities

The company had the following provisions during the year:

| | Property £'000 | Reorganisation costs £'000 | Contract/ Warranty £'000 | Legal provision £'000 | Lease provision £'000 | Total £000 |
|---|-------------------|----------------------------------|--------------------------------|-----------------------------|-----------------------------|---------------|
| At 1 April 2024 | 12,643 | 183 | 2,360 | - | - | 15,186 |
| Charged/(credited) to the income statement | (11,622) | 1,429 | 5,558 | 200 | 300 | (4,135) |
| Utilised during the year | - | (183) | (1,836) | - | - | (2,019) |
| At 31 March 2025 | 1,021 | 1,429 | 6,082 | 200 | 300 | 9,032 |

Provisions have been analysed as current and non-current as follows:

| | 2025 £'000 | 2024 £'000 |
|--------------|---------------|---------------|
| Current | 8,921 | 14,542 |
| Non-current | 111 | 644 |
| Total | 9,032 | 15,186 |

Property provision

There has been a specific property provision put in place for a number of repairs required at one of the DSG sites. The provision is expected to be fully utilised by 31 March 2026. There are minimal uncertainties regarding the value of the outflow to settle the provision.

Reorganisation provision

The provision is for severance costs relating to a restructure. The provision is not expected to be fully utilised by 31 March 2026. There are minimal uncertainties regarding the value of the outflow to settle the provision.

Contract provisions

A provision has been made for work which has been paid for by the MoD and is no longer required. Commercial negotiations are ongoing to either return the funds or provide a different service. The provision is expected to be fully utilised by 31 March 2026. Secondly a provision has been made for items which are returned broken to the MoD or items which the DSG contract are fixing. Over the life of the contract some of these items have gone missing, a project is ongoing to find the missing items and commercial negotiations have started with the MoD. This provision is to allow for repayment to the MoD for any items which cannot be found at the end of the project. The provision is expected to be fully utilised by 31 March 2027. There is also a provision 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. There are minimal uncertainties regarding the value of the outflow to settle the provision.

Legal provision

The provision is for expected legal costs to settle an employee related dispute. The provision is expected to be fully utilised by 31 March 2026. There are minimal uncertainties regarding the value of the outflow to settle the provision.

Notes to the financial statements (continued)

18 Provisions for Liabilities (continued)

Lease provision

The provision relates to the Company's former MHE supplier, Briggs, whose contract ended at the end of FY25. The provision covers potential costs charged to the Company after contract closure, once the assets have been collected and inspected, for any damage or condition beyond normal wear and tear. The provision is expected to be fully utilised by 31 March 2026. There are minimal uncertainties regarding the value of the outflow to settle the provision.

19 Share capital

| | 2025 | 2025 | 2024 | 2024 |
|---|----------------|-------------------|----------|------------|
| | Share | Share | Share | Share |
| | capital | premium | capital | premium |
| | £ | £ | £ | £ |
| Allotted, called-up and fully paid | | | | |
| 200 (2024: 100) ordinary shares of £1 each | 200 | - | 100 | - |
| 200 shares of £488,095 each (2024: 100 shares of £476,190 each) | - | 97,618,900 | - | 47,619,000 |
| | 200 | 97,618,900 | 100 | 47,619,000 |

In October 2024, 100 Ordinary shares of £1 each were issued for an aggregate nominal value of £100. Consideration of £50m was received in relation to the issue of shares.

20 Dividends

No dividends were declared or paid in the year (2024: £nil). There are no plans for a final dividend.

21 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2025 the Company had no capital commitments (2024: none) for the purchase of capital expenditure.

b) Lease Commitments

At 31 March 2025 the Company had lease commitments of £nil for leases not yet commenced (2024: £nil).

22 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.

In the year ended 31 March 2025, the Company had no transactions or balances outstanding with related parties that fall outside of the FRS 101 exemption criteria.

Notes to the financial statements (continued)

23 Pension commitments

The Company accounts for pension costs in accordance with IAS 19.

Defined contribution schemes

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

| | 2025 | 2024 |
|---|---------------|--------------|
| | £'000 | £'000 |
| Babcock Defined Contribution Scheme ("The BIG MasterTrust") | 10,380 | 7,985 |
| Civil Service Pension Scheme | 5,704 | 5,460 |
| | 16,084 | 13,445 |

The amount included in creditors at the year-end in respect of defined contribution schemes was £922,000 (2024: £60,000).

Defined benefit scheme

The company is also a contributing employer to defined benefit schemes (the "Babcock International Group Pension Scheme" and the BIG 2024 section of the "Citrus BIG2024"). The "Babcock International Group Pension Scheme" was closed on 30 September 2024 and all active members were transferred to the new "Citrus BIG2024" scheme for future defined benefit accrual.

The contributions required to the defined benefit schemes, and the assessment of the assets and liabilities that have accrued to members, and any deficit recovery payments required, are agreed by the participating employer with the trustees of the Schemes who are advised by an independent, qualified actuary.

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 schemes are prudently funded by payments to legally separate trustee-administered funds. The trustees of the schemes 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 scheme's investment strategy (subject to consultation). The schemes have an independent trustee and member nominated trustees. The schemes are subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

The total amount charged/(credited) to the income statement relating to defined benefit schemes was:

| | 2025 | 2024 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Babcock International Group Pension Scheme | 718 | 1,110 |
| Citrus BIG2024 | (304) | - |
| Total amount charged to the income statement | 414 | 1,110 |

Notes to the financial statements (continued)

23 Pension commitments (continued)

The total actuarial loss recognised in the SOCI in these financial statements relating to defined benefit schemes was:

| | 2025 £'000 | 2024 £'000 |
|---|---------------|---------------|
| Babcock International Group Pension Scheme | 3,406 | 5,322 |
| Citrus BIG2024 | 51 | - |
| Total actuarial loss recognised in the SOCI | 3,457 | 5,322 |

The total (liability)/asset recognised on the statement of financial position relating to defined benefit schemes in these financial statements was:

| | 2025 £'000 | 2024 £'000 |
|--|---------------|---------------|
| Retirement benefits - funds in surplus | 12,136 | 14,851 |
| Retirement benefits - funds in deficit | - | - |
| | 12,136 | 14,851 |

For all the defined benefit schemes outlined below, the IAS 19 valuation has been updated at 31 March 2025 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The major assumptions used for the IAS 19 valuation were:

| | 2025 BIGPS | 2025 Citrus BIG2024 | 2024 BIGPS | 2024 Citrus BIG2024 |
|--|---------------|---------------------------|---------------|---------------------------|
| Major assumptions | | | | |
| Rate of increase in pensionable salaries | N/A | 2.9% | 2.9% | - |
| Rate of increase in pensions | 3.0% | 3.0% | 3.2% | - |
| Discount rate | 5.7% | 5.8% | 4.8% | - |
| Inflation rate (RPI) | 3.1% | 3.1% | 2.6% | - |
| Inflation rate (CPI) | 2.7% | 2.7% | 1.8% | - |
| Weighted average duration of cash flows (years) | 10 | 17 | 11 | - |
| Total life expectancy for current pensioners aged 65 (years) - male | 86.1 | 86.1 | 21.1 | - |
| Total life expectancy for current pensioners aged 65 (years) - female | 88.8 | 88.8 | 23.7 | - |
| Total life expectancy for future pensioners currently aged 45 (years) - male | 87.1 | 87.1 | 22.1 | - |
| Total life expectancy for future pensioners currently aged 45 (years) - female | 89.9 | 89.9 | 24.9 | - |

Notes to the financial statements (continued)

23 Pension commitments (continued)

The Group's cash contribution rates payable to the scheme in 2025/2026 are expected to be as follows:

| | BIGPS | Citrus BIG2024 |
|---|----------|-------------------|
| | £m | £m |
| Future service contribution rate | N/A | - |
| Future service cash contributions | N/A | 2.6 |
| Deficit contributions | - | - |
| Expense contributions | - | - |
| Additional longevity swap payments | - | - |
| Expected employer cash costs for 2025/26 | - | 2.6 |
| Expected salary sacrifice contributions | N/A | 0.4 |
| Expected total employer contributions | - | 3.0 |

The changes to the Babcock International Group PLC statement of financial position at 31 March 2025 and the changes to the Babcock International Group PLC income statement for the year to 31 March 2026, if the assumptions were sensitised by the amounts below, would be:

| £'m | 2025 BIGPS | 2025 Citrus BIG2024 | 2026 BIGPS | 2026 Citrus BIG2024 |
|--|-----------------------------|---------------------------|----------------------------|---------------------------|
| | Defined Benefit obligations | | Projected income Statement | |
| Initial assumptions | 773.7 | 47.9 | -2.4 | 2.6 |
| Discount rate assumptions increased by 0.5% | 738.0 | 44.2 | -5.0 | 2.2 |
| Discount rate assumptions decreased by 0.5% | 812.5 | 51.9 | 0.0 | 3.0 |
| Inflation rate assumptions increased by 0.5% | 795.1 | 51.1 | -1.2 | 2.8 |
| Inflation rate assumptions decreased by 0.5% | 752.9 | 44.9 | -3.6 | 2.4 |
| Total life expectancy increased by half a year | 789.4 | 48.5 | -1.5 | 2.6 |
| Total life expectancy decreased by half a year | 759.0 | 47.3 | -3.2 | 2.6 |
| Salary increase assumptions increased by 0.5% | N/A | 50.3 | N/A | 2.7 |
| Salary increase assumptions decreased by 0.5% | N/A | 45.6 | N/A | 2.4 |

Notes to the financial statements (continued)

23 Pension commitments (continued)

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 2025 were:

Fair value of plan of assets/(liabilities)

| £'m | 2025 BIGPS | 2025 Citrus BIG2024 | 2024 BIGPS | 2024 Citrus BIG2024 |
|--|---------------|---------------------------|---------------|---------------------------|
| <i>Growth assets</i> | | | | |
| Equities | 0.6 | - | 5.7 | - |
| Property funds | 0.7 | - | 94.5 | - |
| High yield bonds/emerging market debt | - | - | - | - |
| Absolute return and multi-strategy funds | - | 19.7 | - | - |
| <i>Low-risk assets</i> | | | | |
| Bonds | 335.4 | 5.1 | 438.8 | - |
| <i>Matching assets</i> | 568.1 | 25.0 | 525.1 | - |
| <i>Longevity swaps</i> | - | - | - | - |
| Fair value of assets | 904.8 | 49.8 | 1,064.1 | - |
| Percentage of assets quoted | 83% | 33% | 76% | - |
| Percentage of assets unquoted | 17% | 67% | 24% | - |
| Present value of defined benefit obligations: | | | | |
| Active members | - | 47.9 | 75.6 | - |
| Deferred pensioners | 230.4 | - | 264.2 | - |
| Pensioners | 543.3 | - | 579.9 | - |
| Total defined benefit obligations | 773.7 | 47.9 | 919.7 | - |
| Fair Value of Reimbursement Rights as of the Period End Date | (49.7) | - | (50.0) | - |
| Net assets/(liabilities) recognised in the statement of financial position | 81.5 | 1.9 | 94.5 | - |

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

The schemes do not invest directly in assets or shares of Babcock International Group PLC. Investments have been valued for this purpose at fair value at the statement of financial position date. Equity investments and bonds are valued at bid price.

The longevity swaps have been valued in line with assumptions that are consistent with the requirements of IFRS 13 using Level 3 inputs. The key inputs to the valuation are the discount rate and mortality assumptions.

Notes to the financial statements (continued)

23 Pension commitments (continued)

The amounts recognised in the Group income statement are as follows:

| £m | 2025 BIGPS | 2025 Citrus BIG2024 | 2025 Total | 2024 BIGPS | 2024 Citrus BIG2024 | 2024 Total |
|--|---------------|---------------------------|---------------|---------------|---------------------------|---------------|
| Current service cost | 1.3 | 1.3 | 2.6 | 3.0 | - | 3.0 |
| Incurred expenses | 2.8 | - | 2.8 | 4.0 | - | 4.0 |
| Past service cost | (0.3) | - | (0.3) | - | - | - |
| Curtailment | 3.5 | (3.5) | - | - | - | - |
| Total included within operating profit | 7.3 | (2.2) | 5.1 | 7.0 | - | 7.0 |
| Net interest cost/(credit) | (4.6) | (0.1) | (4.7) | (3.8) | - | (3.8) |
| Total included within income statement | 2.7 | (2.3) | 0.4 | 3.2 | - | 3.2 |

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 £414,000 for service cost and incurred expenses (2024: £1,110,000), and net interest income of £689,000 (2024: net interest income of £603,000).

The amounts recorded in the Group statement of comprehensive income are as follows:

| £m | 2025 BIGPS | 2025 Citrus BIG2024 | 2025 Total | 2024 BIGPS | 2024 Citrus BIG2024 | 2024 Total |
|---|---------------|---------------------------|---------------|---------------|---------------------------|---------------|
| Actual return less interest on pension scheme assets | 84.7 | 7.7 | 92.4 | (63.8) | - | (63.8) |
| Experience gains/(losses) arising on scheme liabilities | 9.2 | 0.3 | 9.5 | 6.8 | - | 6.8 |
| Changes in assumptions on scheme liabilities | (78.4) | (6.1) | (84.5) | 27.5 | - | 27.5 |
| | 15.5 | 1.9 | 17.4 | (29.5) | - | (29.5) |

The actuarial loss 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 £3,457,000 (2024: £5,322,000).

Notes to the financial statements (continued)

23 Pension commitments (continued)

Reconciliation of present value of scheme assets, including reimbursement rights:

| £m | 2025 BIGPS | 2025 Citrus BIG2024 | 2024 BIGPS | 2024 Citrus BIG2024 |
|---------------------------------|---------------|---------------------------|---------------|---------------------------|
| Fair value of plan assets | | | | |
| At 1 April | 1,014.1 | - | 1,027.6 | - |
| Interest on assets | 44.2 | 1.4 | 48.7 | - |
| Actuarial gain/(loss) on assets | (84.7) | (7.7) | (63.8) | - |
| Employer contributions | 5.2 | 1.5 | 59.1 | - |
| Employee contributions | - | - | - | - |
| Benefits paid | (68.8) | (0.3) | (57.5) | - |
| Settlements | (54.9) | 54.9 | - | - |
| At 31 March | 855.1 | 49.8 | 1,014.1 | - |

Reconciliation of present value of scheme liabilities:

| £m | 2025 BIGPS | 2025 Citrus BIG2024 | 2024 BIGPS | 2024 Citrus BIG2024 |
|--------------------------------------|---------------|---------------------------|---------------|---------------------------|
| Present value of benefit obligations | | | | |
| At 1 April | 919.7 | - | 959.5 | - |
| Service cost | 1.3 | 1.3 | 3.0 | - |
| Incurred expenses | 2.8 | - | 4.1 | - |
| Interest cost | 39.5 | 1.3 | 44.9 | - |
| Employee contributions | - | - | - | - |
| Experience (gain)/loss | 9.2 | 0.3 | (6.8) | - |
| Actuarial loss/(gain) – demographics | (1.3) | (0.1) | (20.3) | - |
| Actuarial (gain)/loss – financial | (77.1) | (6.0) | (7.2) | - |
| Benefits paid | (68.8) | (0.3) | (57.5) | - |
| Past service costs | (0.2) | - | - | - |
| Curtailment | (51.4) | 51.4 | - | - |
| At 31 March | 773.7 | 47.9 | 919.7 | - |
| Net surplus/(deficit) at 31 March | 81.5 | 1.9 | 94.5 | - |

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 £12,136,000 (2024: asset of £14,851,000).

Notes to the financial statements (continued)

23 Pension commitments (continued)

Virgin Media Case

The company is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for it to have an impact on the company's pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993.

The case was appealed and, in a judgment delivered in July 2024, the Court of Appeal upheld the High Court's decision. However, the company is aware that there is continued uncertainty on various points of detail that were not explored in the Virgin Media case and that a further case was heard in 2025 (judgment for which has not yet been delivered) which may give guidance on issues connected with the Virgin Media case. In addition, on 5 June 2025 the DWP issued a statement confirming that the Government will introduce legislation to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards. The potential impact on the company is therefore not yet known and continues to be assessed.

Notes to the financial statements (continued)

24 Prior year restatement

In the year ended 31 March 2025, the Company restated the prior year financial information. The restatements are summarised below:

Impact on the Statement of financial position for the year ended 31 March 2024

| | As previously stated | Net off contract asset and liability balances | Classification of provisions | Passthrough contract cost under accrual | Restated |
|--|----------------------------|--|---------------------------------|--|-----------------|
| | 2024 £'000 | 2024 £'000 | 2024 £'000 | 2024 £'000 | 2024 £'000 |
| Non-Current Assets | | | | | |
| Intangible assets | 590 | - | - | - | 590 |
| Tangible fixed assets | 671 | - | - | - | 671 |
| Right of use assets | 10,840 | - | - | - | 10,840 |
| Trade and other receivables | 13,778 | - | - | - | 13,778 |
| Pension scheme surplus | 14,851 | - | - | - | 14,851 |
| | 40,730 | - | - | - | 40,730 |
| Current assets | | | | | |
| Inventories | 17,232 | - | - | - | 17,232 |
| Trade and other receivables | 92,623 | (8,000) | - | 10,990 | 95,613 |
| Cash and cash equivalents | 573 | - | - | - | 573 |
| | 110,428 | (8,000) | - | 10,990 | 113,418 |
| Current liabilities | | | | | |
| Trade and other payables | (174,752) | 8,000 | - | (10,990) | (177,742) |
| Lease Liabilities | (5,047) | - | - | - | (5,047) |
| Provisions for liabilities | - | - | (14,542) | - | (14,542) |
| Net current liabilities | (69,371) | - | (14,542) | - | (83,913) |
| Total assets less current liabilities | (28,641) | - | (14,542) | - | (43,183) |
| Non-current liabilities | | | | | |
| Lease liabilities | (3,924) | - | - | - | (3,924) |
| Deferred tax liability | (2,679) | - | - | - | (2,679) |
| Provisions for liabilities | (15,186) | - | 14,542 | - | (644) |
| Net liabilities | (50,430) | - | - | - | (50,430) |
| Equity | | | | | |
| Called up share capital | - | - | - | - | - |
| Share premium account | 47,619 | - | - | - | 47,619 |
| Retained accumulated Losses | (98,049) | - | - | - | (98,049) |
| Total shareholders' deficit | (50,430) | - | - | - | (50,430) |

Notes to the financial statements (continued)

24 Prior year restatement (continued)

Net off contract asset and liability balances

This restatement is the reclassification of contract assets and liabilities required to 'net off' these balances, for presentation in the statement of financial position. This is where the asset and liability relates to the same contract within the Company. The resulting impact is that both current trade receivables and payables have been reduced by £8.0m. There is no impact to the overall net liabilities reported at the year ended 31 March 2024.

Classification of provisions

In the prior year, the current and non-current split of the provisions was not correctly presented on the Statement of Financial Position. This has been changed to match the current and non-current split previously presented within the provisions note 18 reported at the year ended 31 March 2024.

Passthrough contract cost under accrual

In the prior year, the contract cost accrual and associated contract asset on a passthrough contract have been understated. This is due to the omission of a supplier in the calculation, which is a manual process. The resulting impact is an increase of £11.0m to cost current trade receivables and payables. There is no impact to the overall net liabilities reported at the year ended 31 March 2024.

None of the prior year restatements have had an impact on the Income statement, Statement of Comprehensive Income or Statement of Changes in Equity for the year ended 31 March 2024.

25 Contingent liabilities

The Company had previously guaranteed or had joint and several liability for bank facilities that are shared across multiple Group companies, these were cancelled in the period to 31 March 2025 (2024: £8.3 million).

The company is a member of a wider Babcock VAT group, and as a result is jointly and severally liable with the other members for the VAT liability of the Group. At 31 March 2025 the accrued VAT liability of the Group was £10.5m (2024: £3.8m).

26 Events after the reporting period

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

27 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Land Limited, a company registered in England and Wales. 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