

Babcock Aerospace Limited
Annual report and financial statements
for the year ended 31 March 2023

Registered number: **03887962**

COMPANY INFORMATION

Directors

C Barker
N Borrett
S Ward

Company secretary

Babcock Corporate Secretaries Limited

Registered Number

03887962

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditor

Deloitte LLP
1 New Street Square
London
EC4A 4HQ

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Babcock Aerospace Limited

Strategic report for the year ended 31 March 2023

The Directors present their Strategic report on the Company for the year ended 31 March 2023.

Principal activities

The Company's principal activities continued to be providing technical support and training, procurement services and infrastructure support predominantly in the field of military aircraft maintenance and repair.

Business review

	2023	2022
	£'000	£'000
Revenue	98,183	106,408
Profit for the financial year	1,037	5,237
Net Assets	30,961	29,924

Over the course of the current and prior year, the Company continued to perform in line with expectations.

The provision of maintenance and ground crew training in support of the Royal Air Force (RAF) Hawk TMk2 fleet contract continued during the year. In September 2022 an eleven year agreement was signed to continue the service to 2033.

The Company continues to provide technical engineering and support services to the Royal Air Force, across a number of locations throughout the UK, under the HADES contract. The contract to provide support continues to March 2025.

The Company is also continuing to provide flight training services to the UK Armed Forces under its UK Light Aircraft Flying Task (LAFT) contract. At the end of the previous financial year a short-term extension was agreed on the existing contract and a new contract was agreed in October 2022 to continue the service through to March 2026.

The Company is providing services in support of Ascent, a joint venture of Babcock International and Lockheed Martin, to support the delivery of the Military Flight Training System (MFTS) programme in partnership with the UK Ministry of Defence (MOD). During the year the management of construction works following the Strategic Defence and Security Review concluded. The Company is contracted to continue to provide services to 2033.

The Company is also contracted to provide services in support of Airtanker Services Limited under a 27 year agreement ending in 2035.

Striving for, and maintaining, an excellent Health and Safety record remains a fundamental objective across all the sites the Company operates at. Improved safety culture, reporting of incidents and near misses, and safety standards are being addressed through companywide live sessions managed by the operational leadership team, with a focus on empowering individuals to intervene if unsafe practices are witnessed. The Company has implemented training resources, tailored to the specific activities undertaken by the business.

The financial position of the Company has strengthened during the year ended 31 March 2023 with net assets increasing £1.04m or 3.5% on the 2022 closing position. During the year the group implemented zero balancing bank arrangements including this subsidiary. This has resulted in a decrease in cash held from £24.4m to £0.0m and an increase in the amounts due from group companies from £47.6m to £69.8m. Additionally during the year there has been a decrease from £62.4m to £50.0m in trade and other payables due to a settlement of group loan positions.

Strategic report for the year ended 31 March 2023 (*continued*)

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2023, which does not form part of this report.

The key risks and uncertainties affecting the Company are considered to be related to contractual performance and the political and regulatory environment. The Company's business is susceptible to individual contract performance. All of the Company's contracts are affected by changes in government policy, budget allocations and the changing political environment. The Directors manage this risk by meeting on a regular basis to discuss these risks.

The macro-economic environment remains volatile, although there are signs that the extreme inflationary pressures experienced over the last year are beginning to recede, albeit slowly. Approximately two-thirds of our revenue base has measures for protection against inflation. The remainder are, "firm", fixed-price contracts which retain some inflation risk. These are relatively short term (within 3 years), giving us the opportunity to renegotiate these with improved terms. The Company's largest exposure to inflation is rising labour costs (approximately 93% of the cost base of the "firm" fixed-price contracts). The Company addressed labour cost in the UK for FY23 with a pay deal that targeted all but the higher paid employees to assist in the cost-of-living increases. The Company has offset cost increases that cannot be recovered through its contracts, with targeted efficiencies.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 87 to 103 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The growth and performance of the Company, a division of Babcock International Group PLC, which includes the Company, is discussed on pages 52 to 55 of the annual report of Babcock International Group PLC, which does not form part of this report.

We have identified the following financial and non-financial key performance indicators (KPI) that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2023	2022
Revenue Year on Year	-7.7%	-5.7%
Operating Return on Revenue	1.6%	5.3%
Order Book	£754.24m	£340.85m

Revenue Year on Year

The main factors for the fall in revenue from the prior year are:

- MFTS – (£3.02m) construction works related to the Strategic Defence and Security Review concluded.
- LAFT - £3.10m new contract commenced in current year, including a requirement to upgrade the aircraft assets.
- HAWK – (£5.69m) new contract commenced in current year, with reduced service provision.
- Aircraft Support Capability Programme – (£1.50m) reduction in activities during the current year.

The expectation is for the Company to report a more consistent revenue in the short term, following the long term contract agreements completed in 2023.

Strategic report for the year ended 31 March 2023 (*continued*)

Key performance indicators (*continued*)

Operating Return on Revenue

Operating profit expressed as a percentage of revenue has reduced in the year by 3.7%. The main factors affecting this are:

- A reduction in the company's overall gross margin percentage in the year of 4%. This is due to renegotiated contracts for LAFT and HAWK and additionally the extension of the HADES contract.
- Administration expenses have reduced in the year by £1.4m.

Order Book

The order book increase in the current year reflects the agreement of an 11 year contract on HAWK and a 4 year contract for LAFT.

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 a company to act in the way 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 as between members of the Company.

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 56,57 and 115 of the annual report of Babcock International Group PLC, which does not form part of this report. Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term, whilst maintaining a high standard of business conduct. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

Why they matter to us

Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with our customers, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs. We build and maintain long-term relationships with our customers to promote the future success of the Company.

What matters to them

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

Strategic report for the year ended 31 March 2023 (*continued*)

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

Customers (*continued*)

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

Investors

Why they matter to us

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

What matters to them

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

How the Company engages

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

Suppliers

Why they matter to us

To support our business operations and strategy, we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and, by working collaboratively with suppliers, we can ensure continuity of supply, minimise risk and bring innovative solutions to our customer. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 20 to 21 and 83 to 85 of the annual report of Babcock International Group PLC.

Strategic report for the year ended 31 March 2023 (*continued*)

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

Suppliers (*continued*)

What matters to them

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

How the Company engages

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

Regulators

Why they matter to us

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

What matters to them

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

How the Company engages

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

Employees

Why they matter to us

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose. These engagement activities form part of the Group-wide People Strategy as described on pages 20 to 21 and 74 to 78 of the annual report of Babcock International Group PLC.

Strategic report for the year ended 31 March 2023 (*continued*)

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

Employees (*continued*)

What matters to them

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

How the Company engages

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

Communities

Why they matter to us

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

What matters to them

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

How the Company engages

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

Strategic report for the year ended 31 March 2023 (*continued*)

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

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

1. We will reduce emissions and set science-based targets to get to net zero across our estate, assets and operations by 2040.
2. We will integrate environmental sustainability into programme design to minimise waste and optimise resources.
3. We will ensure the safety and wellbeing of all our people.
4. We will make a positive difference to the communities we're proud to be part of and provide high-quality jobs that support local economies.
5. We will be a collaborative, trusted partner across the supply chain, helping to tackle common challenges.

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information is included on page 58 of the annual report of Babcock International Group PLC, which does not form part of this report.

These activities form part of the Group-wide ESG Strategy as described on pages 58 to 86 of the annual report of Babcock International Group PLC, which does not form part of this report.

This report was approved by the board on 5 March 2024 and signed on its behalf by



S Ward

Director

Directors' report for the year ended 31 March 2023

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2023.

Dividends

No interim dividend payments have been made for the financial year (2022: £nil). No final dividend for the year ended 31 March 2023 is proposed by the directors (2022: £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:

H Belmore – resigned 28.09.2023

C Barker – appointed 28.09.2023

N Borrett

P Craig – resigned 15.02.2023

S Doherty – appointed 31.05.2022, resigned 13.02.2023

K Garvey – resigned 12.09.2022

N Misell – resigned 12.09.2022

I Urquhart – resigned 31.05.2022

S Ward

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

In April 2023 Babcock was selected to work with the RAFs Rapid Capability Office and launched Project Monet. The contract will be managed through Babcock Aerospace Limited. This project is tasked with exploring emerging technologies to minimise the environmental impact of light aircraft flight training and will support the RAF's goal of achieving net zero emissions by 2040.

We remain confident that the Company will continue to benefit from the strength of its relationship with the MOD.

The directors are confident about the future trading prospects of the Company due to its current order book and market opportunities.

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £2.39m, but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock Southern Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock Southern Holdings Limited to provide such finance.

Directors' report for the year ended 31 March 2023 (continued)

Going concern (continued)

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

Financial risk management

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

Employment of disabled persons

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

Employee involvement

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

Safety policy

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

Research and development

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

Energy and carbon reporting

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2023 of its ultimate parent, Babcock International Group PLC.

Engagement with suppliers and customers

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

Employees

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

Babcock Aerospace Limited

Directors' report for the year ended 31 March 2023 (*continued*)

Employees (*continued*)

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see pages 20 to 21 and 74 to 78 of the annual report for Babcock International Group PLC.

Engagement with UK employees has been considered on page 7 to 8 in the Strategic Report.

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.

Political Donations

The Company has made £nil (2022:£nil) contributions to political parties during the year.

Qualifying third party indemnity provisions

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

Post balance sheet events

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

Statement of disclosure of information to auditors

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

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

Appointment of auditors

At the 2023 Annual General meeting of Babcock International Group PLC, the Company's ultimate parent company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 5 March 2024 and signed on its behalf by



S Ward
Director

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 'Reduced Disclosure Framework'. 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 the financial statements, the directors are required to:

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

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

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

Independent auditor's report to the members of Babcock Aerospace Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Babcock Aerospace Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 23.

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

Independent auditor's report to the members of Babcock Aerospace Limited

OTHER INFORMATION

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD

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

Independent auditor's report to the members of Babcock Aerospace Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

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

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

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

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

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

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

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

Independent auditor's report to the members of Babcock Aerospace Limited

EXTENT TO WHICH THE AUDIT WAS CONSIDERED CAPABLE OF DETECTING IRREGULARITIES, INCLUDING FRAUD (CONTINUED)

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in respect of these matters.

Babcock Aerospace Limited

Independent auditor's report to the members of Babcock Aerospace Limited

USE OF OUR REPORT

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



Makhan Chahal FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
5 March 2024

Babcock Aerospace Limited

Income statement for the year ended 31 March 2023

	Note	2023 £'000	2022 £'000
Revenue	4	98,183	106,408
Cost of Revenue		(84,373)	(87,133)
Gross profit		13,810	19,275
Administration and distribution expenses		(12,238)	(13,677)
Operating profit	5	1,572	5,598
Finance costs	6	(504)	(203)
Profit before taxation		1,068	5,395
Income tax expense	9	(31)	(158)
Profit for the financial year		1,037	5,237

The notes on page 22 to 45 form part of these financial statements.

All of the above results derive from continuing operations.

There have been no other comprehensive gains/losses during either the current or prior year other than as disclosed in the profit and loss account and therefore no separate statement of comprehensive income has been presented.

Babcock Aerospace Limited

Statement of financial position as at 31 March 2023

	Note	2023 £'000	2022 £'000
Non-current assets			
Intangible assets	10	22,850	22,850
Property, plant and equipment	11	4,513	3,271
Right-of-use asset	12	321	190
Trade and other receivables	14	6,641	47,485
		34,325	73,796
Current assets			
Inventories	13	1,459	1,385
Trade and other receivables	14	85,073	23,491
Cash and cash equivalents		25	24,390
		86,557	49,266
Current Liabilities			
Lease liabilities	12	(129)	(73)
Trade and other payables	15	(88,815)	(92,192)
		(2,387)	(42,999)
Net current liabilities		(2,387)	(42,999)
		31,938	30,797
Total assets less current liabilities			
		31,938	30,797
Non-current liabilities			
Lease liabilities	12	(199)	(126)
Deferred tax	9	(778)	(747)
		(977)	(873)
Net assets		30,961	29,924
Equity			
Called up share capital	16	3,000	3,000
Share premium account		9,000	9,000
Retained earnings		18,961	17,924
Total shareholders' funds		30,961	29,924

The notes on pages 22 to 45 are an integral part of these financial statements.

The financial statements on pages 19 to 45 were approved by the board of Directors on 5 March 2024 and signed on its behalf by:



S Ward
Director

Registered number: 03887962

Babcock Aerospace Limited

Statement of changes in equity as at 31 March 2023

	Called-up share capital £'000	Share premium account £'000	Retained earnings £'000	Total Shareholders' funds £'000
Balance at 31 March 2021	3,000	9,000	12,687	24,687
Profit for the year	-	-	5,237	5,237
Other comprehensive income	-	-	-	-
Balance at 31 March 2022	3,000	9,000	17,924	29,924
Profit for the year	-	-	1,037	1,037
Other comprehensive income	-	-	-	-
Balance at 31 March 2023	3,000	9,000	18,961	30,961

Babcock Aerospace Limited

Notes to the financial statements

1 General information

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

Its ultimate controlling party is disclosed in note 23. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of significant accounting policies

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

Basis of preparation

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

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

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

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

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

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

Basis of preparation (*continued*)

The financial statements have been prepared under the historical cost convention.

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2021 and did not have a material impact on the financial statements:

- The IFRS Interpretations Committee (IFRIC) published an agenda decision in April 2021 which clarified how a customer should account for the costs of configuring or customising the supplier's application software in a software-as-a-service arrangement. As a result of this decision the Company has revised its accounting policy and will not capitalise costs associated with software-as-a-service arrangements where it does not control the underlying software and will no longer capitalise configuration or customisation costs associated with software-as-a-Service arrangements unless those costs result in the creation of an asset controlled by the Company. Where amounts are paid to a software-as-a-service supplier for implementation services and those services are determined not to be distinct from the underlying software-as-a-service arrangement, a prepayment asset is initially recognised then amortised to expense as the services are received. This policy has been retrospectively applied and all costs capitalised in relation to software-as-a-service arrangements have been reviewed. This has not had a material impact on the financial statements. The Company will continue to apply this accounting policy to new software-as-a-service arrangements as we continue to upgrade and standardise our IT environment. As this policy requires costs to be expensed as incurred, this may lead to a higher up-front charge to the income statement in future years but will not impact on the Company's cash flows.
- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £2.39m., but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock Southern Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock Southern Holdings Limited to provide such finance.

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

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

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.

(b) Determination of contract price

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

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

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

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

(c) Allocation of contract price to performance obligations

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

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

Revenue (*continued*)

(d) Revenue and profit recognition

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

Revenue recognised over time

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

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

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

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

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

Revenue recognised at a point in time

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

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

Assessment of contract profitability

Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract outcome 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 significant accounting policies (*continued*)

Revenue (*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. Further detail is included in the Provisions accounting policy.

(e) Contract modifications

Claims and variations

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

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

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

Accounting for contract modifications

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

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

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

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

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

Revenue (*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.

(f) Costs of obtaining a contract

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

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

(g) Costs to fulfil a contract

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

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

Costs of recruiting or training staff are expensed as incurred.

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

(h) Contract assets and liabilities

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

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

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of significant 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) Goodwill

The Company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead, an annual impairment test is performed and any impairment that is identified is recognised in the income statement. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)', which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations.

Property, plant and equipment

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

Plant and equipment	3 to 10 years
Aircraft fleet	3% to 10%

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at the year end date. Where the residual value of the asset increases to an amount that exceeds the asset's carrying amount, the depreciation charge is zero until its residual value subsequently decreases to an amount below the asset's carrying amount. Where there is an amendment to the residual value or useful economic life of the Company's aircraft fleet from previous estimations, the change is accounted for as a change in accounting estimate in accordance with IAS 8. The amendment is recognised prospectively to the period of change and, where relevant, future periods.

Where PPE is purchased for specific projects and the remaining project life is less than the above period, the asset is written off over the remainder of the project life.

PPE is reviewed for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the fixed assets may not be recoverable. An asset's recoverable 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.

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 to which the asset belongs.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of significant 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.

Finance costs

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

Finance income

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

Employee benefits

(a) Pension obligations

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.

(b) Share-based compensation

The Company operates equity-settled, share-based compensation plans. 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.

(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.

Financial instruments

(a) Financial assets and liabilities at amortised cost

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.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

2 Summary of significant accounting policies (*continued*)

Fair value measurement

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

The fair values of non-financial assets and liabilities are based on observable market prices or rates.

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

3 Critical accounting estimates and judgements

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

Critical accounting judgements

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

Notes to the financial statements (*continued*)

3 Critical accounting estimates and judgements (*continued*)

Revenue and profit recognition

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

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 set out below:

Revenue and profit recognition

The Company's revenue recognition policies require management to make an estimate of the cost to complete for long-term contracts. Management estimates outturn costs on a contract-by-contract basis and estimates are carried out by suitably qualified and experienced personnel. Estimates of cost to complete include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge, and judgements and estimates are reviewed regularly throughout the contract life based on latest available information and adjustments are made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn. As an indicative sensitivity analysis for one of the Company's key contracts, if the customer were to request additional items which increased internal IT costs by 10% (c£250k) each year, this would increase contract costs by c£3.25m over the remainder of the contract, leading to a reversal of revenues and increase of losses recognised to date of up to c£2m (reducing percentage of completion of costs from 41.9% at 31 March 2023 to 40.9%).

Inflation

The level to which the Company revenue and cost for each contract will be impacted by inflation is a key accounting estimate, as this could cause the cost of contract delivery to be greater than was expected at the time of contracting. The Group's contracts are exposed to inflation due to rising employment costs, as well as increased costs of raw materials.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

4 Revenue

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

	2023	2022	2023	2022	2023	2022
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
	Technical support and training	Technical support and training	Procurement services and infrastructure support	Procurement services and infrastructure support	Total	Total
By area of activity: Provision of services - transferred over time	(44,956)	(48,700)	(53,227)	(57,708)	(98,183)	(106,408)
	(44,956)	(48,700)	(53,227)	(57,708)	(98,183)	(106,408)

	2023	2022
	£'000s	£'000s
By geographical area: United Kingdom	(98,183)	(106,408)

5 Operating profit

Operating profit is stated after charging / (crediting):

	2023	2022
	£'000	£'000
Depreciation of property, plant and equipment (Note 11)	140	689
Right of use depreciation (Note 12)	200	179
Inventory recognised as an expense	2,022	1,598
Operating lease charges - short term leases	670	600
Foreign exchange gains	-	(16)
Audit fees payable to the Company's auditors*	196	196
Intellectual property royalty charge	1,514	1,570

*The auditors' remuneration for the current (£196,000) and prior year (£196,000) has been borne by a fellow group company. Fees paid to the company's auditors, Deloitte LLP and its associates are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

6 Finance costs

	2023	2022
	£'000	£'000
Finance costs:		
Lease interest	16	11
Loan interest payable to group undertakings	488	192
	504	203

7 Staff costs

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

	2023	2022
	Number	Number
By activity:		
Operations	1,652	1,851
Management and administration	89	84
	1,741	1,935

Their aggregate remuneration comprised:

	2023	2022
	£'000	£'000
Wages and salaries	53,250	56,299
Social security costs	7,189	7,252
Pension costs – defined contribution plans (note 20)	4,945	5,243
	65,384	68,794

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

8 Directors' remuneration

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

The emoluments of the directors paid by the Company were as follows:	2023	2022
	£'000	£'000
Remuneration (including benefits in-kind)	433	324
Defined contribution pension scheme	18	19
	451	343

During the year no (2022: none) Director remunerated by Babcock Aerospace Limited exercised share options under long term incentive plans and no (2022: none) Director was entitled to receive share options under long term incentive plans.

Pension contributions were made in respect of two (2022: two) directors. There are no retirement benefits under SIPS money purchase schemes accruing for any active directors (2022: none).

Except for two (2022: two) 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:

The emoluments of the director paid by the Company were as follows:	2023	2022
	£'000	£'000
Remuneration (including benefits in-kind)	241	174
Defined contribution pension scheme	9	10
	250	184

The highest paid Director did not exercise shares under long term incentive plans (2022: did not exercise shares under long term incentive plans).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

9 Tax

Income tax expense

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Analysis of tax expense in the year		
Current tax		
• UK current year expense	-	-
	-	-
Deferred tax		
• UK current year expense/(benefit)	24	(119)
• UK prior year (benefit)/expense	(1)	98
• Impact of changes in tax rates	8	179
Total income tax expense	31	158

The tax for the year is lower (2022: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2023 £'000	Year ended 31 March 2022 £'000
Profit before tax	5,395	5,395
Profit on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	203	1,025
Effects of:		
Expenses not deductible for tax purposes	-	5
Adjustment in respect of deferred tax for prior years	(1)	98
Impact of change in UK tax rate	8	179
Group relief for nil consideration	(179)	(1,149)
Total income tax expense	31	158

On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

9 Tax (*continued*)

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 2023	31 March 2022
	£m	£m
Deferred tax liability	(778)	(747)
	(778)	(747)

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

	Tangible Assets	Other	Total
	£'000	£'000	£'000
At 1 April 2022	780	(33)	747
Income statement credit	34	(3)	31
At 31 March 2023	814	(36)	778
At 1 April 2021	691	(102)	589
Income statement credit	89	69	158
At 31 March 2022	780	(33)	747

Deferred tax liabilities have been recognised in respect of accelerated capital allowances and other short term timing differences.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

10 Intangible assets

	Goodwill	Total
	£'000	£'000
Cost		
At 1 April 2022	22,850	22,850
Additions	-	-
At 31 March 2023	22,850	22,850
Accumulated amortisation and impairment		
At 1 April 2022	-	-
At 31 March 2023	-	-
Net book value		
At 31 March 2023	22,850	22,850
At 31 March 2022	22,850	22,850

With effect from 1 April 2012, Babcock Aerospace Limited acquired contracts from three companies within the Group (Babcock Support Services Limited, Babcock Communications Limited and Babcock Flagship Limited). £22,850,000 is the remaining cost of goodwill as at the date of transition to FRS101 (£36,974,000 at acquisition). The financial statements depart from the requirements of the Companies Act 2006 to amortise goodwill over a finite period in order to give a true and fair view as required by FRS 101. The Directors have judged that the longevity of the Company's activities with the UK Government indicate there is no foreseeable limit to the potential cash-generation derived from the current goodwill balance.

A current year impairment review was carried out on the Company's goodwill, which did not result in any impairment. The recoverable amount of goodwill was assessed by reference to value in use calculations derived from risk-adjusted cash flows based on a five year plan.

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

11 Property, plant and equipment

	Aircraft & components £'000	Plant & equipment £'000	Assets under construction £'000	Total £'000
Cost				
At 1 April 2022	12,383	1,392	-	13,775
Additions	-	-	1,382	1,382
At 31 March 2023	12,383	1,392	1,382	15,157
Accumulated depreciation				
At 1 April 2022	9,112	1,392	-	10,504
Charge for the year	140	-	-	140
At 31 March 2023	9,252	1,392	-	10,644
Net book value				
At 31 March 2023	3,131	-	1,382	4,513
At 31 March 2022	3,271	-	-	3,271

The Directors have judged that £140,000 depreciation is required to be charged against the Company's aircraft in the year (2022: £689,000) as their net book value was in excess of their revised residual value. This is supported by the determination of the residual value based on a market valuation performed by an independent third party in the current year.

Capital commitments

Capital expenditure contracts not provided for in full in the financial statements is £nil (2022: £nil).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

12 Leases

Right-of-use assets

The Company leases vehicles under non-cancellable lease arrangements.

	Plant and equipment	Total
	£'000	£'000
Cost		
At 1 April 2022	478	478
Additions	331	331
Terminations	(224)	(224)
At 31 March 2023	585	585
Accumulated depreciation		
At 1 April 2022	288	288
Charge for the year	200	200
Terminations	(224)	(224)
At 31 March 2023	264	264
Net book value		
At 31 March 2023	321	321
At 31 March 2022	190	190

Lease liabilities

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

	2023	2022
	£'000	£'000
At 31 March 2022	199	336
Additions	331	42
Interest charged	16	11
Payments	(218)	(190)
At 31 March 2023	328	199

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

12 Leases (*continued*)

Lease liabilities (*continued*)

Discounted future minimum lease payments are as follows:

	31 March	31 March
	2023	2022
	£'000	£'000
Within one year	129	73
In more than one year, but not more than five years	199	126
After five years	-	-
Carrying value of liability	328	199

The Company had total cash outflows for leases of £218,000 for the year ended 31 March 2023 (2022: £190,000).

The following are the amounts recognised in profit or loss:

	31 March	31 March
	2023	2022
	£'000	£'000
Depreciation expense of right of use assets	200	179
Interest expense on lease liabilities	16	11
Expense relating to short-term leases	190	190
	406	380

13 Inventories

	31 March	31 March
	2023	2022
	£'000	£'000
Raw materials	1,459	1,385
	1,459	1,385

Inventories are stated after provisions for impairment of £145,000 (2022: £134,000).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

14 Trade and other receivables

	31 March	31 March
	2023	2022
	£'000	£'000
Amounts due after more than one year:		
Amounts due from group undertakings	1,621	41,745
Contract assets	5,020	5,740
	6,641	47,485
Amounts falling due within one year:		
Trade receivables	5,359	274
Contract assets	7,686	14,260
Amounts due from group undertakings	68,183	5,820
Amounts due from related parties (Note 19)	607	1,519
Other receivables	186	25
Prepayments and accrued income	3,052	1,593
	85,073	23,491

Amounts due from Group undertakings are all due from fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:

- One loan totalling £55,124,000 (2022: £45,724,000) are repayable on demand, with no interest charge.
- Debtors totalling £715,000 (2022: £220,000)
- Dividend debtors £1,621,000 (2022: £1,621,000)
- Debtors related to the implementation of zero balancing bank accounts £9,245,000 (2022: £nil)

Trade receivables are stated after provisions for impairment of £nil (2022: £nil).

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

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

	£'000
At 1 April 2022	20,000
Transfers from contract assets recognised at the beginning of the year to receivables	(14,260)
Increase due to work done not transferred from contract assets	6,966
At 31 March 2023	12,706
	£'000
At 1 April 2021	20,042
Transfers from contract assets recognised at the beginning of the year to receivables	(11,671)
Increase due to work done not transferred from contract assets	11,629
At 1 April 2022	20,000

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

15 Trade and other payables

	2023 £'000	2022 £'000
Amounts falling due within one year:		
Trade payables	463	790
Contract liabilities	23,119	15,668
Amounts due to group undertakings	49,984	62,426
Other taxation and social security	5,934	4,228
Accruals	2,194	2,736
Deferred Income	7,213	5,900
Other payables	(92)	444
	<u>88,815</u>	<u>92,192</u>

- Amounts due to Group undertakings are all due to fellow subsidiary companies of the ultimate parent, Babcock International Group PLC and comprise the following:
- A loan of £11,300,000 (2022: £11,300,000) is repayable on demand, the interest rate is LIBOR plus 1.5%.
- All other amounts due from group undertakings are unsecured and repayable on demand.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 21).

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

	£'000
At 1 April 2022	15,668
Amount accrued	23,119
Amount utilised	<u>(15,668)</u>
At 31 March 2023	<u>23,119</u>

	£'000
At 1 April 2021	11,694
Amount accrued	15,668
Amount utilised	<u>(11,694)</u>
At 31 March 2022	<u>15,668</u>

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

16 Share capital

	31 March 2023 £'000	31 March 2022 £'000
Allotted, called up and fully paid		
3,000,000 ordinary shares of £1 each (2022: 3,000,000 ordinary shares of £1 each)	3,000	3,000

17 Dividends

Dividends declared and paid were £nil (2022: £nil), equivalent to £nil per share (2022: £nil). There are no plans for a final dividend.

18 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2023 the Company had capital commitments of £nil (2022: £nil).

b) Lease Commitments

At 31 March 2023 the Company had lease commitments of £nil for leases not yet commenced (2022: £nil).

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

19 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.

The Company entered into transactions in the ordinary course of business with Ascent Flight Training (Management) Limited, Advanced Jet Training Limited, Rear Crew Training Limited, Rotary Wing Training Limited and Airtanker Services Limited. All are joint venture undertakings in which 50% share holdings (23.51% shareholding in the case of Airtanker Services Limited (2022: 23.51%)) are held by a fellow group company. All shareholdings in related parties are in the form of Ordinary shares.

Transactions entered into with parties who are not wholly owned subsidiaries of Babcock International Group PLC and trading balances outstanding at 31 March 2023 are as follows:

Related party	Sales to related party £'000	Purchases from related party £'000	Amounts owed by related party £'000
Ascent Flight Training (Management) Limited			
At 31 March 2023	758	-	267
At 31 March 2022	3,046	-	99
Advanced Jet Training Limited			
At 31 March 2023	1,253	-	257
At 31 March 2022	1,736	-	185
Airtanker Services Limited			
At 31 March 2023	13,680	-	83
At 31 March 2022	11,502	(19)	172
Rear Crew Training Limited			
At 31 March 2023	639	-	-
At 31 March 2022	1,063	-	215
Rotary Wing Training Limited			
At 31 March 2023	4,006	-	-
At 31 March 2022	3,455	-	848

Babcock Aerospace Limited

Notes to the financial statements (*continued*)

20 Pension commitments

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

Babcock International Group Pension Scheme

The Company contributes into the Babcock Group wide defined contribution scheme. The total cost of pension contributions for employees of the Company during the year was £4,944,000 (2022: £5,243,000). On 31 March 2023, no contributions were payable to the funds (2022: £nil).

21 Contingent liabilities

The Company has guaranteed or has joint and several liability for the drawn bank overdraft facilities that are shared across multiple Group companies with utilisation of £21.0m at 31 March 2023 (31 March 2022: 383.6m).

22 Post balance sheet events

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

23 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership 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