

**Babcock Land Defence Limited**

**Babcock Land Defence Limited**  
**Annual report and financial statements**  
**for the year ended 31 March 2023**

Registered number: **09329025**

# **Babcock Land Defence Limited**

## **Directors**

N Borrett  
S Doherty  
P Edwards  
J Rayson  
K Robinson  
C Spicer

## **Company Secretary**

Babcock Corporate Secretaries Limited

## **Registered Number**

09329025

## **Registered office**

33 Wigmore Street  
London  
W1U 1QX

## **Independent auditor**

Deloitte LLP  
1 New Street Square  
London  
EC4A 3HQ

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

### Review of the business

	Year ended	Year ended
	31 March 2023	31 March 2022
	£000	£000
Revenue	250,147	232,296
Profit for the financial year before tax	20,528	19,230
Total shareholders' deficit	(45,738)	(55,119)

Revenue has increased by £18m between FY22 and FY23. This was partly due to revenue from two new contracts, Belgium vehicles £3m and EMTC £15m, plus inflation. Profit for the financial year has also increased, this is associated with the additional revenue and the new Belgium Vehicles contract generated an additional £1.5m in profit.

In the previous year the Company consolidated a number of contracts from Babcock Land Limited into Babcock Land Defence Ltd as part of a wider strategic project to consolidate and rationalise contracts into one trading entity. During this financial year there was no further consolidation as the project was put on temporary hold until current contracts are renewed, or new contracts are won.

A number of staff were transferred in from other Babcock companies during the year under Project Ottawa as the Sector centralised overhead functions which has resulted in increased staff costs under administration expenses. Exceptional costs represent redundancies paid during both years and have reduced significantly this year due to the restructuring programme being completed in early FY23.

The Company continues to improve the working of the SAP ERP system driving further efficiencies into its vehicle maintenance and spares procurement activities and leading to better reporting both internally and externally to the MoD customer.

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

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

**Principal risks and uncertainties (continued)**

The key risks and uncertainties affecting the Company are considered to be the performance of contractual obligations, achieving extensions to existing contracts, political and regulatory environment. The directors manage this risk by meeting on a regular basis to gain assurance from the executive team that risks are being addressed in accordance with the strategic plan and nuclear licensed site obligations. 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 this Company, is discussed on pages 48 to 51 of the annual report of Babcock International Group PLC, which does not form part of this report.

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

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

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

	<b>2023</b>	2022	
Revenue Growth	<b>8 %</b>	52.0%	Growth in revenue when compared to that of the previous year.
Operating Return on Revenue (ORR)	<b>8%</b>	9%	Operating profit expressed as a percentage of revenue.
Order Book	<b>£1,485m</b>	£1,489m	Includes total value of signed contracts and prudent estimate of value of framework contracts, based on ongoing assessment of expected contract values.
Total injuries rate per 200,000 hours worked	<b>0.97</b>	1.87	Health and Safety is a core value for the Company. The data includes all reported injuries.

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

**Key performance indicators (continued)**

**Operating Return on Revenue**

The margin has improved year on year due to growth secured in existing contracts and costs of sales reducing.

**Revenue**

Revenue has increased by £18m between FY22 and FY23. This was partly due to revenue from two new contracts, Belgium vehicles £3m and EMTC £15m, plus inflation. Profit for the financial year has also increased, this is associated with the additional revenue and the new Belgium Vehicles contract generated an additional £1.5m in profit.

**Order Book**

Order book has decreased by £4m as a result of contract delivery through revenue of £250m, partially offset by new vehicle supply contracts of £47m and growth of existing contracts including annual indexation of £203k.

**Total injuries rate**

New ways of working evolved out of COVID which led to a reduction in handling injuries. A Group event reporting tool was introduced in FY21, which led to better reporting of incidents and actions resulting in changes to ways of working being taken, off of the back of the improvement in data capture. Focus remains on health and safety across the Group. Safety sessions are regularly held to discuss incidents and near misses, with emphasis on sharing learnings. Staff are empowered to challenge others if they notice non-compliance with health and safety procedures.

**S172 (1) Statement and stakeholder engagement**

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 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:

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

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

**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

How the Company engages

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

**Investors**

Why they matter to us

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

What matters to them

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

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

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

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 - 21 and 83 – 85 of the annual report of Babcock International Group PLC which does not form part of this report.

What matters to them

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

How the Company engages

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

#### Regulators

Why they matter to us

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

What matters to them

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



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

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

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 - 21 and 74 - 78 of the annual report of Babcock International Group PLC which does not form part of this report.

What matters to them

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

How the Company engages

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

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

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

**Communities and the environment**

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

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

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

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

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

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

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

This report was approved by the board on 16 August 2024 and signed on its behalf

A handwritten signature in black ink, appearing to read 'P Edwards', is positioned above the printed name and title.

P Edwards  
**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 dividends were declared or paid in the year (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:

L Atkinson (resigned 26 March 2024)  
N Borrett  
J Cohen (resigned 20 December 2023)  
S Doherty (appointed 18 May 2022)  
P Edwards (appointed 20 December 2023)  
T Newman (resigned 24 May 2023)  
J Rayson (appointed 12 July 2023)  
Katie Robinson (appointed 26 March 2024)  
C Spicer (appointed 12 July 2023)  
I Urquhart (resigned 31 May 2022)  
S West (resigned 1 July 2022)

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

### **Future developments**

The directors are confident about the future trading prospects of the Company considering its current strong order book position and other market opportunities. Engagement with the customer on the way forward for the DSG contract post 2025 has continued to move forward in a positive manner.

Further contract opportunities have been awarded during the financial year and subsequent to year end.

In February 2023 the Company was awarded a £40m contract to work in collaboration with Devon-based Supacat, to deliver an order of 70 High Mobility Transporters (HMT 400 series) from the UK Ministry of Defence. This contract will be delivered from a new production facility in Plymouth, the development of which is funded through this contract, with the potential for it to also be used for future contracts awards in-line with the Ministry of Defence's Land Industrial Strategy. Production of the Jackals commenced in February 2024 and is expected to be completed during the year ending 31 March 2025.

Subsequent to year end, we have been awarded a three-year contract, in support of Mabway with a value of £3.7m, the contract is for the provision of support to the design, preparation and delivery of training exercises. This contract commenced October 2023.

Most recently the Company was awarded a seven-year contract worth £75m to provide individual trade and technical training to the British Army's armoured vehicle community this contract is in its mobilisation phase and is due to commence 1 April 2024.

In the summer of 2023, the Company was awarded a Limit of Liability contract from the MoD for £50m to provide technical support, spares and training to the Armed Forces of Ukraine. The contract commenced immediately and will reach Full Operating Capability in October 2024.

### **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.

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

#### Going concern *(continued)*

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 £89,237,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the company has sufficient liquidity to do so and the company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above, 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.

#### Corporate governance statement

As a subsidiary of Babcock International Group PLC, the Company adheres to the broader governance of the Group and its policies. Babcock International Group PLC is listed on the London Stock Exchange and therefore complies with the UK Corporate Governance code.

#### *Purpose and Principles*

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

Our Purpose and Principles were formally launched this year to support the major cultural shift the business is making. They were developed with the help of our people and are designed to unite us as a company, inspire our thinking, guide our actions, and encourage us to support each other in achieving our vision of a safe, strong, sustainable Babcock. See more about our approach to Inclusion and Diversity on page 75-78 of the annual report for Babcock International Group PLC, which does not form part of this report.

#### *Board and Director's responsibilities*

The Directors responsibilities statement is included on page 14.

#### *Risk*

We have a risk management framework and internal control environment to manage the risks that may undermine our ability to execute our strategy or more generally our business model. As part of the Group-wide turnaround plan, we have reviewed and improved the risk management framework so that it aligns with our new operating model. As a result, the framework is now standardised across the Group and consistent, with clear risk ownership. In order to assist the Board and the Directors in understanding of principal risks, we have increased the granularity and quantification of each risk. In early FY23 we launched an updated Risk Management policy which will enhance the guidance and requirements around our risk assessment and reporting process. Processes will be subject to ongoing continuous improvement. These activities form part of the Risk Management Strategy as described on pages 87-103 of the annual report of Babcock International group PLC, which does not form part of this report.

#### *Remuneration*

The Babcock International Group PLC Remuneration Committee is responsible for reviewing the remuneration of employees of the Company, as well as alignment of incentives and rewards with culture, and take these into account when setting the policy for executive remuneration. These activities form part of the Remuneration Strategy as described on pages 131-133 of the annual report of Babcock International group PLC, which does not form part of this report.

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

**Corporate governance statement (continued)**

*Business relationships*

The Company's approach to business relationships are detailed in the S172 statement on page 5.

**Financial risk management**

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

**Employment of disabled persons**

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

**Employee involvement**

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

**Safety policy**

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

**Research and development**

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

**Energy and carbon reporting**

The Company has taken advantage of the exemption granted under The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 as this information is disclosed in the annual report for the year ended 31 March 2023 of its ultimate parent, Babcock International Group Plc, which does not form part of this report.

**Engagement with suppliers and customers**

Engagement with suppliers and customers has been considered in the Strategic Report on 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.

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 - 21 and 74 - 78 of the annual report for Babcock International Group Plc, which does not form part of this report.

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

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

**Environment**

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

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

**Qualifying third party indemnity provisions**

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

**Post balance sheet events**

There have been no significant events affecting the Company since the year end see note 24.

**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 re-appointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be re-appointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 16 August 2024 and signed on its behalf by



P Edwards  
**Director**

## **Statement of Directors' responsibilities in respect of the financial statements**

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

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

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

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

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

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



## **Independent auditors' report to the directors of Babcock Land Defence Limited**

### **Report on the audit of the financial statements**

#### **Opinion**

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

- give a true and fair view of the state of the company's affairs as at 31 March 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 comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the related notes 1 to 25.

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

#### **Basis for opinion**

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

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

#### **Conclusions relating to going concern**

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

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

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

#### **Other Information**

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

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

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

**Other Information** *(continued)*

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

**Responsibilities of directors**

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Report on other legal and regulatory requirements**

**Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

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

**Matters on which we are required to report by exception**

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

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

**Use of our report**

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



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

## Babcock Land Defence Limited

### Income statement

for the year ended 31 March 2023

	Note	2023 £000	2022 £000 <i>*Restated</i>
<b>Revenue</b>	4	<b>250,147</b>	232,296
Cost of revenue		<b>(211,399)</b>	(196,634)
<b>Gross profit</b>		<b>38,748</b>	35,662
Administrative expenses		<b>(17,853)</b>	(6,431)
Administrative expenses - exceptional	22	<b>(258)</b>	(9,094)
<b>Operating profit</b>	5	<b>20,637</b>	20,137
Finance costs	6	<b>(913)</b>	(982)
Finance income	6	<b>12</b>	-
Other finance income – pensions	21	<b>792</b>	75
<b>Profit before taxation</b>		<b>20,528</b>	19,230
Income tax expense	10	<b>(642)</b>	(1,337)
<b>Profit for the financial year</b>		<b>19,886</b>	17,893

The notes on pages 24 to 60 form part of these financial statements.

All of the above results derive from continuing operations.

\*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

## Babcock Land Defence Limited

### Statement of comprehensive income

for the year ended 31 March 2023

	2023 £000	2022 £000 <i>*Restated</i>
<b>Profit for the financial year</b>	<b>19,886</b>	17,893
(Loss) / gain on re-measurement of net defined benefit obligation	<b>(13,923)</b>	15,839
Tax (charge)/credit on net defined benefit obligation	<b>3,418</b>	(4,459)
	<hr/> <b>(10,505)</b>	11,380
<b>Total comprehensive income for the financial year</b>	<hr/> <b>9,381</b> <hr/>	<hr/> 29,273 <hr/>

\*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

## Babcock Land Defence Limited

### Statement of financial position

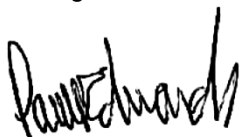
As at 31 March 2023

	Note	2023 £000	2022 £000
<b>Non Current Assets</b>			
			<i>*Restated</i>
Intangible assets	11	854	2,105
Tangible fixed assets	12	193	270
Right-of-use assets	13	12,690	16,007
Trade and other receivables	16	39,782	40,884
Pension scheme surplus	21	11,296	24,167
		<b>64,815</b>	<b>83,433</b>
<b>Current assets</b>			
Inventories	15	10,673	7,624
Trade and other receivables	16	78,094	64,779
Cash and cash equivalents		367	-
		<b>89,134</b>	<b>72,403</b>
<b>Current liabilities</b>			
Trade and other payables	17	(174,481)	(140,717)
Lease Liabilities	13	(3,892)	(5,195)
Bank and other borrowings		-	(39,838)
<b>Net current liabilities</b>		<b>(89,239)</b>	<b>(113,347)</b>
<b>Total assets less current liabilities</b>			
		<b>(24,424)</b>	<b>(29,914)</b>
<b>Non-current liabilities</b>			
Lease liabilities	13	(8,856)	(12,220)
Deferred tax liability	10	(1,773)	(4,549)
Provisions for liabilities	18	(10,685)	(8,436)
<b>Net liabilities</b>		<b>(45,738)</b>	<b>(55,119)</b>
<b>Equity</b>			
Called up share capital	19	-	-
Share premium account	19	47,619	47,619
Retained accumulated Losses		(93,357)	(102,738)
<b>Total shareholders' deficit</b>		<b>(45,738)</b>	<b>(55,119)</b>

The notes on pages 24 to 60 are an integral part of these financial statements.

\*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 22.

The financial statements on pages 20 to 60 were approved by the board of Directors on 16 August 2024 and signed on its behalf by:



P Edwards  
Director

## Babcock Land Defence Limited

### Statement of changes in equity

As at 31 March 2023

	Called up share capital account	Share premium account	(Accumulated losses) / Retained earnings	Total shareholders' funds
	£000	£000	£000	£000
<b>At 1 April 2021</b>	-	47,619	(129,108)	(81,489)
*Prior year restatement	-	-	(2,903)	(2,903)
<b>At April 2021 restated</b>	-	47,619	(132,011)	(84,392)
Profit for the financial year	-	-	17,893	17,893
Other comprehensive income restated	-	-	11,380	11,380
<b>Total comprehensive income</b>	-	-	29,273	29,273
<b>At 31 March 2022</b>	-	47,619	(102,738)	(55,119)
Profit for the financial year	-	-	19,886	19,886
Other comprehensive expense	-	-	(10,505)	(10,505)
<b>Total comprehensive income</b>	-	-	9,381	9,381
<b>At 31 March 2023</b>	-	47,619	(93,357)	(45,738)

\*In the year ended 31 March 2023, the Company restated the prior year financial information. Details of the restatement are contained in note 22.



## **Notes to the financial statements**

### **1 General Information**

Babcock Land Defence Limited (the Company) is a private company limited by shares incorporated and domiciled 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 26. 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 Accounting policies**

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

#### **Basis of preparation**

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

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

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

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

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

**Notes to the financial statements (continued)**

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

**Basis of preparation (continued)**

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

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

**Adoption of new and revised standards**

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2023 and did not have a material impact on the consolidated financial statements:

- Amendments to IAS 37, *'Provisions, contingent liabilities and contingent assets'*. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract.
- Amendments to IAS 16, *'Property, plant and equipment'*. The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced before that asset is available for use and clarifies the meaning of 'testing whether an asset is functioning properly'.
- Amendments to IFRS 3, *'Business Combinations'*. The amendment relates to the identification of liabilities assumed and contingent assets acquired in a business combination.
- Annual improvements to IFRS 2018 – 2020 cycle

**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 £89,237,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

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

**Revenue**

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

**Notes to the financial statements (continued)**

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

**Revenue (continued)**

**(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/overspends are shared with the customer. Elements of variable consideration are estimated at contract inception and at the end of each reporting period. Any required adjustment is made against the contract price in the period in which the adjustment occurs.

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

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.

**(c) Allocation of contract price to performance obligations**

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

**(d) Revenue and profit recognition**

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

**Notes to the financial statements (continued)**

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

**Revenue (continued)**

**Revenue recognised over time**

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

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

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

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

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

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

**Revenue recognised at a point in time**

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

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

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

**Assessment of contract profitability**

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

**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 outcomes 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**

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

**(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.

**Notes to the financial statements (continued)**

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

**Revenue (continued)**

**Principal versus Agent considerations**

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

**Intangible assets**

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

*a) Acquired intangibles*

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

The carrying value of the contracted element is amortised straight-line over the remaining period of the orders that are in process or the future period in which the orders will be fulfilled, as the case may be. The amortisation period of 10 years represents the length of the contract in this case. The carrying value of the acquired intangibles is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less costs to sell or value in use.

*b) Computer software*

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

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

*c) Development costs*

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

**Notes to the financial statements (continued)**

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

**Property, plant, and equipment**

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

Plant and equipment	6.6% to 33.3%
---------------------	---------------

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

**Investments**

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

**Leases**

**The Company as lessee**

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

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

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

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

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

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



**Notes to the financial statements** *(continued)*

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

**Inventory**

Directly attributable costs to obtain a contract with a customer that the Company would not have incurred if the contract had not been won are recognised as an asset and amortised on a straight-line basis. Costs to obtain a contract that would have been incurred regardless of whether the contract was won or lost are recognised as an expense when incurred.

**Contingent liabilities**

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 23 for details of contingent liabilities.

**Cash and cash equivalents**

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

**Finance costs**

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

**Finance income**

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

**Trade and other receivables**

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

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

**Taxation**

a) Current income tax

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

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

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

**Notes to the financial statements (continued)**

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

b) Deferred income tax

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

c) Deferred income tax (continued)

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

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

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

**Employee benefits**

a) Pension obligations

Defined contribution scheme

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

Defined benefit scheme

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

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

## **Babcock Land Defence Limited**

### **Notes to the financial statements (continued)**

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

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

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

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

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

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

#### b) Holiday pay

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

#### **Foreign currencies**

##### a) Functional and presentation currency

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

##### b) Transactions and balances

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

#### **Financial instruments**

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

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

**Notes to the financial statements** *(continued)*

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

**Fair value measurement**

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

The carrying values of financial assets and liabilities which are not held at fair value in the Company statement of financial position per page 20 are assumed to approximate to fair value due to their short-term nature.

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

**Provisions for liabilities**

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

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

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

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

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

**Exceptional items**

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

**Business combinations under common control**

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

**Notes to the financial statements (continued)**

**3 Critical accounting estimates and judgements**

**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.

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

**Critical accounting judgements**

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

**Revenue and profit recognition**

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

**Contract Modifications**

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

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

**Series Guidance**

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

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

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

**Notes to the financial statements (continued)**

**3 Critical accounting estimates and judgements (continued)**

**Material rights**

IFRS15 requires the directors to assess renewal options in a contract to determine if they represent a material right to the customer, and hence whether they should be included within the contract when assessing the appropriate period over which revenue should be recognised.

A material right is considered to exist where they are offered at a price that does not reflect the stand-alone selling price for a similar contract to a similar class of customer (i.e., they provide an incremental discount to the customer). To assess whether the price for any extension years is a discount compared to the stand-alone selling price, the consideration for these years is forecast using the pricing schedule from the contract and applying an interpretation of the indexation formula provided by the customer, approximately equal to future inflation rates the Directors reasonably anticipated at the outset of the contract.

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

**Termination clauses contained within contracts**

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

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

**Sublease**

**classification**

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

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

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

In arriving at this assessment, the Directors have determined the following:

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

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Leases where the customer is the landlord

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

Key sources of estimation uncertainty

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

Revenue and profit recognition

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

Defined benefit pension schemes obligations

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

4 Revenue

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

	2023	2022
	£000	£000
<b>Revenue:</b>		
Provision of services - transferred over time	135,724	89,359
Provision of services - transferred at a point in time	94,390	96,455
Sale of goods	20,033	46,482
	250,147	232,296
	250,147	232,296

By geographical area:

	2023	2022
	£000	£000
<b>Revenue:</b>		
United Kingdom	250,147	232,296
	250,147	232,296
	250,147	232,296

## Babcock Land Defence Limited

### Notes to the financial statements (continued)

#### 5 Operating profit/(loss)

Operating profit is stated after charging / (crediting):

	2023	2022
	£000	£000
Amortisation charge on intangible assets (note 11)	442	465
Impairment of intangible assets (note 11)	930	-
Depreciation of property, plant and equipment (note 12)	85	44
(Profit) on disposal of fixed assets	(63)	(175)
Depreciation – right of use assets (note 13)	3,814	3,460
Interest on lease liabilities (note 6)	634	812
Operating lease charges – low value leases	8	16
Cost of inventories recognised as an expense	21,649	31,138
Net foreign exchange (gains)/losses	(62)	24
Staff costs (note 7)	107,660	91,294
Fees for audit services payable to the Company's auditor	258	258

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.

Included in audit services payable above are fees payable for the audit of Babcock Land Limited £159,000 (2022: £159,000) that have been borne by the Company.

#### 6 Finance income and costs

Finance costs	2023	2022
	£000	£000
Bank interest paid	(111)	(169)
Interest on lease liabilities	(634)	(812)
Loan interest paid	(168)	-
	<u>(913)</u>	<u>(981)</u>
<b>Finance income</b>		
Loan interest received	12	-
	<u>12</u>	<u>-</u>



**Notes to the financial statements (continued)**

**7 Staff costs**

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

<b>By Activity:</b>	<b>2023</b>	2022
	<b>Number</b>	Number
Operational and technical	<b>2,316</b>	2,210
Management and administration	<b>87</b>	61
	<b>2,403</b>	2,271

Their aggregate remuneration comprised:

	<b>2023</b>	2022
	<b>£000</b>	£000
		<i>*Restated</i>
Wages and salaries	<b>84,223</b>	71,967
Social security costs	<b>10,679</b>	7,408
Other pension costs	<b>12,758</b>	11,919
	<b>107,660</b>	91,294

Included in other pension costs are £1,272,000 (2022: £1,163,000 *restated*) in respect of defined benefit schemes and £11,486,000 (2022: £10,756,000) in respect of the defined contribution scheme.

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

\*Other pension costs have been restated to align to retirement benefit note 21.

**8 Directors' emoluments**

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

	<b>2023</b>	2022
	<b>£000</b>	£000
Remuneration (including benefits-in-kind)	<b>1,037</b>	1,079
Defined contribution pension schemes	<b>60</b>	44
	<b>1,097</b>	1,123

During the year nil (2022: 1) Directors remunerated by Babcock Land Defence Limited exercised share options under long term incentive plans and four (2022: four) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Directors (2022: none) under the company defined benefit pension scheme.

**Notes to the financial statements (continued)**

**8 Directors' emoluments (continued)**

Except for five (2022: four) Directors, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

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

	<b>2023</b>	2022
	<b>£000</b>	£000
Remuneration (excluding pension contributions)	<b>266</b>	338
	<b>266</b>	338

The highest paid Director did exercise shares under long term incentive plans (2022: exercised shares under long term incentive plans).

The highest paid Director's defined benefit accrued pension and accrued lump sum at 31 March 2023 was £nil (2022: £nil) and £nil (2022: £nil), respectively.

**9 Share based payments**

The charge to the income statement is based on the amount charged from Babcock International Group PLC. This charge represents an allocation of the total charge based on the proportion which relates to Devonport Royal Dockyard Limited. The total charge has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration Report in the Babcock International Group PLC Annual Report and Accounts, which does not form part of this report.

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

**Performance Share Plan (PSP)**

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2022 PSP	2,302,009	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 PSP	613,078	351.4	19.0%	6.0	100.0%	–	316.3	55.0%	01/08/22
2022 PSP	806,511	351.4	19.0%	6.0	100.0%	168.7	316.3	55.0%	01/08/22
2022 DBP	218,895	351.4	19.0%	4.0	100.0%	–	351.4	55.0%	01/08/22
2022 DBP	551,420	351.4	19.0%	20.	100.0%	–	351.4	55.0%	01/08/22
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21

Notes to the financial statements (continued)

9 Share based payments (continued)

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – non-market conditions %	Fair value per option – TSR Pence	Fair value per option – non-market conditions Pence	Correlation %	Grant or modification date
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 DBP	187,433	856.0	14.0%	4.0	100.0%	–	856.0	56.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18

Both the vesting period and the expected life of all DBMP and PSP awards is three years, but for the DBP it is two years, other than executive directors where the vesting period is three years. The holders of all awards receive dividends.

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

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

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

There are no performance conditions attached to the DBP.

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

PSP awards made in August 2021 of 769,165 shares include performance criteria weighted to 50% against free cash flow targets and 50% against TSR performance. PSP awards made in September 2021 of 2,407,553 shares were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached.

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 140,340 matching shares (2022: 159,494 matching shares) at a cost of £0.4 million (2022: £0.5 million).

## Babcock Land Defence Limited

### Notes to the financial statements (continued)

#### 9 Share based payments (continued)

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year no matching shares were purchased on the open market (2022: 4,784 matching shares) and 1,055 matching shares vested (2022: 2,823 matching shares) leaving a balance of 5,918 matching shares (2022: 6,973 matching shares).

#### 10 Tax

##### Income tax expense

	Year ended 31 March 2023	Year ended 31 March 2022
	£000	<i>*Restated</i> £000
<b>Analysis of tax expense in the year</b>		
<i>Current tax</i>		
UK current year expense/(benefit)	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences	185	1,496
Adjustment in respect of prior year	462	199
Impact of change in UK tax rate	(5)	(358)
<b>Total income tax expense</b>	<b>642</b>	<b>1,337</b>

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	Year ended 31 March 2022
	£000	<i>*Restated</i> £000
Profit before tax	<b>20,528</b>	19,230
Profit/(loss) on ordinary activities multiplied by rate of corporation tax in the UK of 19% (2022: 19%)	<b>3,900</b>	3,654
Effects of:		
Group relief (claimed)/surrendered for nil consideration	<b>(3,715)</b>	(2,158)
Prior year adjustments - deferred tax	462	199
Impact of change in the UK tax rate	(5)	(358)
<b>Total income tax expense</b>	<b>642</b>	<b>1,337</b>

Notes to the financial statements (continued)

10 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:

	<b>31 March 2023 £000</b>	31 March 2022 £000
Deferred tax asset	-	-
Deferred tax liability	<b>(1,773)</b>	(4,549)
	<b>(1,773)</b>	(4,549)

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

	<b>Accelerated capital allowances £000</b>	<b>Retirement benefit obligations £000</b>	<b>Other timing differences £000</b>	<b>Total £000</b>
<b>At 1 April 2022</b>	(1,493)	6,042	-	4,549
Income statement credit	229	200	213	642
Tax debit to other comprehensive income/equity	-	(3,418)	-	(3,418)
<b>At 31 March 2023</b>	<b>(1,264)</b>	<b>2,824</b>	<b>213</b>	<b>1,773</b>
At 1 April 2021	(1,499)	350	(97)	(1,246)
Income statement credit	6	1,223	97	1,336
Tax credit to other comprehensive income/equity	-	4,459	-	4,459
<b>At 31 March 2022</b>	<b>(1,493)</b>	<b>6,042</b>	<b>-</b>	<b>4,549</b>

Notes to the financial statements (continued)

11 Intangible assets

	Software £000	Development costs £000	Acquired contract intangible £000	Assets under construction £000	Total £000
<b>Cost</b>					
At 1 April 2022	13,880	392	140,951	-	155,223
Additions	11	-	-	-	11
Transfer from PPE AUC	-	-	-	109	109
<b>At 31 March 2023</b>	<b>13,891</b>	<b>392</b>	<b>140,951</b>	<b>109</b>	<b>155,343</b>
<b>Accumulated amortisation</b>					
At 1 April 2022	(12,032)	(134)	(140,951)	-	(153,117)
Impairment	(930)	-	-	-	(930)
Amortisation	(308)	(134)	-	-	(442)
<b>At 31 March 2023</b>	<b>(13,270)</b>	<b>(268)</b>	<b>(140,951)</b>	<b>-</b>	<b>(154,489)</b>
<b>Net book value</b>					
<b>At 31 March 2023</b>	<b>621</b>	<b>124</b>	<b>-</b>	<b>109</b>	<b>854</b>
At 31 March 2022	1,848	258	-	-	2,105

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

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

Notes to the financial statements *(continued)*

12 Property, plant, and equipment

	<b>Assets under construction</b>	<b>Plant &amp; equipment</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost</b>			
At 1 April 2022	-	15,307	15,307
Additions	109	18	127
Transfer to intangible AUC	(109)	-	(109)
Disposals	-	(20)	(20)
<b>At 31 March 2023</b>	<b>-</b>	<b>15,305</b>	<b>15,305</b>
<b>Accumulated depreciation</b>			
At 1 April 2022	-	(15,036)	(15,036)
Charge for the year	-	(85)	(85)
Disposals	-	9	9
<b>At 31 March 2023</b>	<b>-</b>	<b>(15,112)</b>	<b>(15,112)</b>
<b>Net book value:</b>			
<b>At 31 March 2023</b>	<b>-</b>	<b>193</b>	<b>193</b>
At 31 March 2022	-	270	270

Contractual commitments for property, plant and equipment at year end is £nil (2022: £nil).

**Capital commitments**

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

Notes to the financial statements (continued)

13 Leases

Right-of-use assets

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

	Property £000	Plant & machinery £000	Motor vehicles £000	Total £000
<b>Cost</b>				
<b>At 1 April 2022</b>	<b>429</b>	<b>3,898</b>	<b>18,514</b>	<b>22,840</b>
Reclassification of motor vehicles	-	(2,212)	2,212	-
Additions	-	-	1,057	1,057
Disposals	-	-	(561)	(561)
<b>At 31 March 2023</b>	<b>429</b>	<b>1,776</b>	<b>21,132</b>	<b>23,336</b>
<b>Accumulated depreciation</b>				
<b>At 1 April 2022</b>	<b>(116)</b>	<b>(3,104)</b>	<b>(3,613)</b>	<b>(6,833)</b>
Reclassification of motor vehicles	-	1,328	(1,328)	-
Charge for the year	(19)	-	(4,158)	(4,177)
Disposals	-	-	364	364
<b>At 31 March 2023</b>	<b>(135)</b>	<b>(1,776)</b>	<b>(8,735)</b>	<b>(10,646)</b>
<b>Net book value:</b>				
<b>At 31 March 2023</b>	<b>294</b>	<b>-</b>	<b>12,397</b>	<b>12,690</b>
At 31 March 2022	312	794	14,901	16,007



**Notes to the financial statements (continued)**

**13 Leases (continued)**

**Lease liabilities**

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Opening as at 1 April	17,415	3,304
Contract novation	-	19,093
Additions	1,057	596
Disposals	(379)	(84)
Interest charged	612	796
Payments	(5,957)	(6,290)
<b>Closing as at 31 March</b>	<b>12,748</b>	<b>17,415</b>

Discounted future minimum lease payments are as follows:

	<b>31 March</b>	31 March
	<b>2023</b>	2022
	<b>£000</b>	£000
Within one year	5,715	5,195
In more than one year, but not more than five years	6,984	12,220
In more than five years	49	-
<b>Carrying value of liability</b>	<b>12,748</b>	<b>17,415</b>

The following are the amounts recognised in profit or loss:

	<b>31 March</b>	31 March
	<b>2023</b>	2022
	<b>£000</b>	£000
Expense relating to low value leases	8	16
	<b>8</b>	<b>16</b>

Notes to the financial statements (continued)

14 Investments

	<b>2023</b>	2022
	<b>Shares in group undertakings</b>	Shares in group undertakings
	<b>£</b>	£
Cost		
At April	1	1
<b>Carrying amount at 31 March</b>	<b>1</b>	<b>1</b>

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

15 Inventories

	<b>2023</b>	2022
	<b>£000</b>	£000
Raw materials and consumables	<b>10,673</b>	7,624
	<b>10,673</b>	7,624

Inventories are stated after provisions for impairment of £11,738,000 (2022: £11,227,000).

**Notes to the financial statements** *(continued)*

**16 Trade and other receivables**

	<b>2023</b>	2022
	<b>£000</b>	£000
<b>Amounts falling due within one year:</b>		
Trade receivables	<b>50,304</b>	41,868
Contract balances	<b>18,214</b>	20,916
Amounts owed by Group undertakings	<b>8,232</b>	1,166
Other receivables	<b>128</b>	73
Prepayments	<b>1,216</b>	756
	<b>78,094</b>	64,779
	<b>2023</b>	2022
	<b>£000</b>	£000
<b>Amounts falling due after more than one year:</b>		
Amounts owed by Group undertakings	<b>39,782</b>	40,884
	<b>39,782</b>	40,884

Amounts due from group undertakings are unsecured and repayable on demand. This consists of two (2022: two) loans totalling £39,782,000 (2022: £39,782,000 ), with no interest charge.

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.

**Notes to the financial statements (continued)**

**17 Trade and other payables**

	2023	2022
	£000	£000
<b>Amounts falling due within one year:</b>		
Trade Payables	6,123	5,384
Amounts owed to group undertakings	56,156	35,686
Contract liabilities	42,810	49,912
Other taxation and social security	6,643	3,677
Goods received not invoiced	21,006	13,533
Accruals	41,743	32,525
	174,481	140,716

Amounts due to Group undertakings comprises the following:

- One loan totalling £27,106,000 (2022: £27,106,000) is repayable on demand, with no interest charge.
- All other amounts due to group undertakings are trading balances expected to be settled in the company's usual operating cycle of 12 months or less.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 24).

**18 Provisions for Liabilities**

The company had the following provisions during the year:

	Dilapidation provision £000	Reorganisation provision £000	Contract provision	Total £000
<b>At 1 April 2022</b>	4,300	2,680	1,456	8,436
Charged/(credited) to the income statement	3,994	(2,360)	615	2,248
<b>At 31 March 2023</b>	8,924	320	2,071	10,685

*Dilapidation provision*

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

*Reorganisation provision*

The provision is for severance costs relating to a restructure.

*Contract provision*

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

Notes to the financial statements (continued)

19 Share capital

	2023	2023	2022	2022
	Share capital	Share premium	Share capital	Share premium
	£	£	£	£
<b>Allotted, called-up and fully paid</b>				
100 ordinary shares of £1 each	100	-	100	-
100 shares of £476,190 each	-	47,619,000	-	47,619,000
	<b>100</b>	<b>47,619,000</b>	100	47,619,000

20 Related party disclosures

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

21 Pension commitments

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

*Defined contribution schemes*

The Company contributes to a defined contribution scheme in the UK in respect of many of its employees.

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

	31 March 2023 £000	31 March 2022 £000
Babcock Defined Contribution Scheme	5,953	4,417
Civil Service Pension Scheme	5,533	6,339
	<b>11,486</b>	<b>10,756</b>

*Defined benefit scheme*

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

	31 March 2023 £000	31 March 2022 £000
Retirement benefits - funds in surplus	170,381	202,200
Retirement benefits - funds in deficit	(159,086)	(178,033)
	<b>11,295</b>	<b>24,167</b>

**Notes to the financial statements (continued)**

**21 Pension commitments (continued)**

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

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

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

**Babcock International Group PLC Pension Scheme**

The IAS 19 valuation has been updated at 31 March 2023 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2021. The major assumptions used for the IAS 19 valuation were:

	<b>2023</b>	2022
	<b>%</b>	<b>%</b>
<b>Major assumptions</b>		
Rate of increase in salaries	<b>3.0</b>	3.4
Rate of increase in pension payment	<b>3.15</b>	3.5
Discount rate	<b>4.8</b>	2.7
Inflation rate (RPI) - year 1	<b>6.9</b>	3.7
Inflation rate (RPI) – thereafter	<b>3.3</b>	-
Inflation rate (CPI) - year 1	<b>4.7</b>	3.2
Inflation rate (CPI) – thereafter	<b>2.8</b>	-

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

Future service contribution rate	30.3%
Future service cash contributions	£3.2m
Deficit contributions	£13.7m
Additional longevity swap payments	£3.6m
<b>Expected employer cash costs for 2023/24</b>	<b>£20.5m</b>
Expected salary sacrifice contributions	£0.4m
<b>Expected total employer contributions</b>	<b>£20.9m</b>

**Notes to the financial statements (continued)**

**21 Pension commitments (continued)**

The expected total employer contributions to be made by participating employers to the scheme in 2023/24 are £20.9m. The future service rate is 30.3%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. The company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	<b>2023 Years</b>	2022 Years
Life expectancy from age 65 (male age 65)	<b>21.3</b>	21.8
Life expectancy from age 65 (male age 45)	<b>21.8</b>	22.4
Life expectancy from age 65 (female age 65)	<b>23.9</b>	21.8
Life expectancy from age 65 (female age 45)	<b>24.4</b>	22.4

The changes to the Babcock International Group Plc statement of financial position at 31 March 2023 and the changes to the Babcock International Group Plc income statement for the year to 31 March 2023, if the assumptions were sensitised by the amounts below, would be:

	<b>Defined benefit obligations 2023 £000</b>	<b>Projected Income statement 2024 £000</b>
Initial assumptions	<b>959,486</b>	<b>3,258</b>
Discount rate assumptions increased by 0.5%	907,786	(177)
Discount rate assumptions decreased by 0.5%	1,016,590	6,448
Inflation rate assumptions increased by 0.5%	989,614	4,955
Inflation rate assumptions decreased by 0.5%	930,318	1,627
Total life expectancy increased by half a year	979,147	4,239
Total life expectancy decreased by half a year	941,281	2,351
Salary increase assumptions increased by 0.5%	961,981	3,491
Salary increase assumptions decreased by 0.5%	957,087	3,036

The weighted average duration of cash flows (years) was 12 (2022: 14).

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the statement of financial position date of 31 March 2023 were:

## Babcock Land Defence Limited

### Notes to the financial statements (continued)

#### 21 Pension commitments (continued)

Fair value of plan assets	2023 £'000	2022 £'000
Equities	569	7,701
Property funds	101,475	121,945
High yield bonds/emerging market debt	5	19,785
Absolute return and multi strategy funds	-	-
Bonds	450,971	662,075
Matching assets	525,991	711,526
Scheme assets	1,079,011	1,523,032
Active position on longevity swaps	(51,400)	(65,800)
Total assets	1,027,611	1,457,232
Present market value of liabilities - funded	(959,486)	(1,283,066)
<b>Pension surplus</b>	<b>68,125</b>	<b>174,166</b>

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

The longevity swaps have been valued, in 2023, in line with assumptions that are consistent with the requirements of IFRS 13.

The equity investments and bonds are valued at bid price.

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

Analysis of amount charged to the income statement in Babcock International Group Plc	2023 £000	2022 £000
Current service cost	5,172	5,873
Incurred expenses	2,499	2,506
Past service cost	-	-
Total included within operating profit	7,671	8,379
Net interest income	(4,774)	(537)
<b>Total charged to the income statement</b>	<b>2,897</b>	<b>7,842</b>

The amounts charged to the income statement in these financial statements, based on the company's allocation of the total Babcock International Group Plc charge, included £1,272,000 for service cost and incurred expenses (2022: £1,163,000), and net interest income of £792,000 (2022: net interest income of £75,000).



**Notes to the financial statements (continued)**

**21 Pension commitments (continued)**

<b>Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")</b>	<b>2023 £000</b>	<b>2022 £000</b>
Actuarial gain/(loss) recognised in the SOCl	<b>(114,297)</b>	119,728
Experience (loss)	<b>(18,000)</b>	(16,961)
Other gains	<b>16,176</b>	2,601
	<b>(116,121)</b>	<b>(105,368)</b>

The actuarial loss recognised in the Statement of Comprehensive Income in these financial statements, based on the company's allocation of the total Babcock International Group Plc movement, was £13,923,000 (*restated* 2022: £15,839,000 gain).

<b>Reconciliation of fair value of plan assets (including reimbursement rights) in Babcock International Group Plc</b>	<b>2023 £000</b>	<b>2022 £000</b>
At 1 April	<b>1,457,232</b>	1,425,910
Interest income	<b>38,613</b>	28,017
Employee contributions	<b>71</b>	71
Employer contributions	<b>12,977</b>	58,808
Benefits paid	<b>(68,359)</b>	(75,881)
Actuarial loss	<b>(412,923)</b>	20,307
<b>At 31 March</b>	<b>1,027,611</b>	<b>1,457,232</b>

<b>Reconciliation of present value of scheme liabilities in Babcock International Group plc</b>	<b>2023 £000</b>	<b>2022 £000</b>
At 1 April	<b>1,283,066</b>	1,408,078
Service cost	<b>5,172</b>	5,873
Incurred expenses	<b>2,499</b>	2,506
Interest on liabilities	<b>33,839</b>	27,480
Employee contributions	<b>71</b>	71
Actuarial gain – demographics	<b>(8,864)</b>	(22,776)
Actuarial gain – financial	<b>(305,938)</b>	(79,246)
Experience losses/(gains)	<b>18,000</b>	16,961
Benefits paid	<b>(68,359)</b>	(75,881)
Settlement	<b>-</b>	-
<b>At 31 March</b>	<b>959,486</b>	<b>1,283,066</b>

The surplus recognised in these financial statements, based on the company's allocation of the total Babcock International Group Plc assets and liabilities for this scheme, was an asset of £11,296,000 (2022: asset of £24,167,000).

## Babcock Land Defence Limited

### Notes to the financial statements (continued)

#### 22 Prior year restatement

In the year ended 31 March 2023, the Company restated the prior year financial information. The restatements are summarised below:

<b>Income Statement</b>	<b>Reported</b>	<b>BIL Pension liability</b>	<b>Restated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Revenue</b>	<b>232,296</b>	-	<b>232,296</b>
Cost of revenue	(196,634)	-	(196,634)
<b>Gross loss</b>	<b>35,662</b>	-	<b>35,662</b>
Administrative expenses	(6,431)	-	(6,431)
Administrative expenses - exceptional	(9,094)	-	(9,094)
<b>Operating loss</b>	<b>20,137</b>	-	<b>20,137</b>
Finance costs	(982)	-	(982)
Finance income	-	-	-
Other finance income - pensions	75	-	75
Net finance costs	(907)	-	(907)
<b>Loss on ordinary activities before taxation</b>	<b>19,230</b>	-	<b>19,230</b>
Income tax expense	(730)	(607)	(1,337)
<b>(Loss)/profit for the financial year</b>	<b>18,500</b>	<b>(607)</b>	<b>17,893</b>

#### Statement of comprehensive income

	<b>Reported</b>	<b>BIL Pension liability</b>	<b>Restated</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<i>for the Year Ended 31 March 2022</i>			
Profit for the financial year	18,500	-	17,893
Gain/(loss) on re-measurement of the net defined benefit obligation	19,032	(3,193)	15,839
Tax (charge)/credit on net defined benefit obligation	(5,066)	607	(4,459)
<b>Total comprehensive income/(expense) for the financial year</b>	<b>32,466</b>	<b>(3,193)</b>	<b>29,273</b>

Notes to the financial statements (continued)

22 Prior year restatement (continued)

Statement of financial position

	Reported	BIL Pension liability	Pension surplus reclass	Restated
	£000	£000	£000	£000
<i>as at 31 March 2022</i>				
Fixed assets				
Intangible assets	2,105	-	-	2,105
Tangible fixed assets	270	-	-	270
Right of use assets	16,007	-	-	16,007
Trade and other receivables	40,884	-	-	40,884
Deferred tax asset				-
Pension scheme surplus	-		24,167	24,167
	59,266	-	24,167	83,433
Current assets				
Inventories	7,624	-	-	7,624
Pension scheme surplus	24,167	-	(24,167)	-
Trade and other receivables	64,779	-	-	64,779
	96,570	-	(24,167)	72,403
Current Liabilities				
Trade and other payables	(134,621)	(6,096)	-	(140,717)
Lease Liabilities	(5,195)	-	-	(5,195)
Cash and cash equivalents	(39,838)			(39,838)
Net current liabilities	(83,084)	(6,096)	(24,167)	(113,347)
Total assets less current liabilities	(23,818)	(6,096)	-	(29,914)
Non-current liabilities				
Lease liabilities	(12,220)	-	-	(12,220)
Deferred tax liability	(4,549)			(4,549)
Provisions for liabilities	(8,436)	-	-	(8,436)
<b>Net liabilities</b>	<b>(49,023)</b>	<b>(6,096)</b>	<b>-</b>	<b>(55,119)</b>
Equity				
Called up share capital	-	-	-	-
Share premium account	47,619	-	-	47,619
Retained earnings	(96,642)	(6,096)	-	(102,738)
<b>Total shareholders' funds</b>	<b>(49,023)</b>	<b>(6,096)</b>	<b>-</b>	<b>(55,119)</b>
	-	-	-	-
Accumulated profit/(loss) bf at 1 April 2021	(129,108)	(2,903)	-	(132,011)
<b>Accumulated profit/(loss) bf at 31 March 2022</b>	<b>(96,642)</b>	<b>(6,096)</b>	<b>-</b>	<b>(102,738)</b>
Total Equity bf at 1 April 2021	(81,489)	(2,903)	-	(84,392)
<b>Total Equity at 31 March 2022</b>	<b>(49,023)</b>	<b>(6,096)</b>	<b>-</b>	<b>(55,119)</b>

**Notes to the financial statements (continued)**

**22 Prior year restatement (continued)**

**BIL pension liability**

Babcock International Limited, a fellow subsidiary, makes payments on behalf of member entities in relation to the Babcock International Group defined benefit pension scheme and recharges those payments to member entities. Babcock International Limited has disclosed intercompany assets equivalent to the amounts to be recharged to member entities. The Company has not recorded an equivalent liability, as such the Company has restated the prior year financial statements to increase the intercompany liability as at 31 March 2022 by £3.2m and for the year ending 31 March 2021 by £2.9m in relation to amounts owed to Babcock International Limited. The cumulative impact at 31 March 2022 on the balance sheet is £6.1m.

As a participating employer of the scheme, Babcock Land Defence Limited is severally liable, along with the other participating employers, for the assets and liabilities of the scheme, and as such, these assets, liabilities and obligations are allocated to each participating entity based on active members. Employee contributions, on the other hand, are allocated on the basis of actual contributions paid, with the net gain or loss on remeasurement of the defined benefit obligation reflected in other comprehensive income. Any change in employer contributions therefore directly impacts on other comprehensive income, hence why the recognition of the intercompany liability at 31 March 2021 and 31 March 2022 has also impacted the Statement of Other Comprehensive Income and Income Statement.

**Reclassification of pension asset**

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

**23 Exceptional items**

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

	<b>2023</b>	2022
	<b>£000</b>	£000
<i>Presented within administrative expenses:</i>		
Redundancy costs*	<b>258</b>	<b>9,094</b>
	<b>258</b>	<b>9,094</b>

\*Severance costs relating to a restructure announced prior to the year ended 31 March 2023.

**24 Contingent liabilities**

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

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

**Notes to the financial statements** *(continued)*

**25 Post balance sheet events**

In November 2023, the Company took part in a group wide loan rationalisation process which involved the netting of intercompany payable and receivable loan balances. This resulted in an intercompany loan receivables balance of £12.7m for which a new loan agreement was established with Babcock Marine UK Holdings Limited.

**26 Immediate and ultimate parent undertakings**

The Company's immediate parent undertaking is Babcock Land Limited.

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

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

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