Babcock Land Limited

Annual report and financial statements

for the year ended 31 March 2023

Company registration number:

03493110

Directors and advisors

Directors	N Borrett P Edwards S Doherty T Newman
Company Secretary	Babcock Corporate Secretaries Limited
Registered Number	03493110
Registered Office	33 Wigmore Street London W1U 1QX
Independent Auditor	Deloitte LLP 1 New Street Square London EC4A 4HQ

CONTENTS

Strategic report for the year ended 31 March 2023

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

Principal activities

The Company's principal activities are the provision of training and manpower services in the UK defence sector.

Review of the business

	2023	2022
	£'000	£'000
Revenue	**11,400**	27,225
Profit before tax	**1,829**	6,605
Total shareholders' funds	**66,933**	65,095

Revenue and profit reduced in the year ended 31 March 2023 following the end of one of the training contracts with the British Army. The successor contract was successfully tendered and won by the immediate subsidiary company Babcock Land Defence Limited. The profit reduction has also been impacted by the one off profit on disposal (£3,437,000) recognised in the prior year following the novation of the Contract Hire and Phoenix II contracts to Babcock Land Defence Limited.

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 on pages 87 to 103 in its Annual Report for the year ended 31 March 2023.

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.

The key risks and uncertainties affecting the Company are considered to be related to the 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 Company's activities are managed on a divisional basis. For this reason, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance, or position of the Company. The growth and performance of the Company, a division of Babcock International Group PLC, which includes the 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.

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

S172(1) Statement and Stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 56, 57, and 115 of the annual report of Babcock International group PLC, which does not form part of this report.

Employees

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global 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 to 78 of the annual report of Babcock International group PLC, which does not form part of this report.

Business relationships

We are committed to conducting business honestly, transparently and with integrity. Understanding the needs and challenges of our customers allows us to help them to succeed. We work in partnership with public and private customers across the globe, enabling them to deliver critical programmes and services, adding value to their operations. We seek to solve their challenges through excellent operational performance and the introduction of innovative solutions and technology to support their longer-term needs.

We build and maintain long-term relationships with our customers to promote the future success of the Company.

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

Business relationships (continued)

To support our global 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 customers. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 20-21 and 83 to 85 of the annual report of Babcock International group PLC, which does not form part of this report.

The community and environment

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

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

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information on climate, including climate related risks and uncertainties in the context of the Group as a whole, and other ESG items is included on pages 58 to 86 of the annual report of Babcock International Group PLC. The information provided in the Babcock International Group PLC annual report does not form part of this report.

This report was approved by the board on 18 July 2024 and signed on its behalf by:

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

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

N Borrett
I Urquhart (resigned 31 May 2022)
L Atkinson (resigned 24 May 2023)
T Newman
S West (resigned 1 July 2022)
S Doherty (appointed 31 May 2022)
P Edwards (appointed 24 May 2023)

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

Future developments
Over the coming years it is expected that as contracts come to an end within Babcock Land Limited this Company will cease to be a trading entity and any extensions or re-bids for contracts will be made from another Company within the Babcock International Group. As such the Company will become an investment holding company only and therefore still a.

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net asset position of £66,933k as at 31 March 2023. The net current liabilities position of £158,504,000 is due to intercompany amounts due to parent and group undertakings. These are not expected to be settled until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies confirming this position. Due to the net asset position of the Company, no letter of support from another Group entity is required or has been sought.

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

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

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

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.

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

Engagement with suppliers and customers
Engagement with suppliers and customers has been considered in the Strategic Report on page 4 to 5.

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 4 of the Strategic Report.

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

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

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.

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

Post Statement of Financial Position events
There have been no significant events affecting the Company since the year end.

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

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

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

This report was approved by the board and signed on its behalf by:

P Edwards

Director

18/07/2024

Statement of Directors' responsibilities

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 Limited

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of Babcock Land 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 22.

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 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.

Independent auditors' report to the members of Babcock Land Limited

Other Information (continued)

We have nothing to report in this regard.

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

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant pensions and 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.

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:

Independent auditors’ report to the members of Babcock Land Limited

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

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 members of Babcock Land Limited

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

18 July 2024

Income statement
for the year ended 31 March 2023

	Note	**2023**	2022
		£000	£000
Revenue	4	**11,400**	27,225
Cost of revenue		**(9,485)**	(22,778)
Gross profit		**1,915**	4,447
Administrative expenses		**(98)**	(1,276)
Gain on sale of contracts	5	**-**	3,437
Operating profit	5	**1,817**	6,608
Finance income	6	**13**	-
Finance costs	6	**(1)**	(3)
Profit before taxation		**1,829**	6,605
Income tax credit / (expense)	8	**10**	(217)
Profit for the financial year		**1,839**	6,389

The notes on page 18 to 44 form part of these financial statements.

All of the above results derive from continuing operations. Effective from 1st April 2021, fleet contracts which primarily provide lease vehicles and a management system to the British Army the (Contract Hire and Phoenix II contracts) were novated from Babcock Land Limited to Babcock Land Defence Limited.

Statement of comprehensive income
for the year ended 31 March 2023

	Note	**2023**	2022
		£000	£000
Profit for the financial year		**1,839**	6,389
Other comprehensive expense/(income)			
Items that will not be subsequently reclassified to income statement:			
Loss on re-measurement of net defined benefit obligation		**-**	(1,558)
Tax income on net defined benefit obligation	8	**-**	296
Total comprehensive income for the year		**1,839**	5,127

The notes on page 18 to 44 form part of these financial statements.

Statement of financial position
as at 31 March 2023

	Note	**2023**	2022
		£000	£000
Non-current assets			
Property, plant and equipment	9	**-**	90
Right-of-use assets	10	**93**	114
Investments in subsidiaries	11	**104,748**	104,748
Amounts owed by Group undertakings	12	**120,690**	120,690
		225,531	225,642
Current assets			
Deferred tax asset	8	**15**	5
Trade and other receivables	12	**4,919**	2,233
Cash and cash equivalents		**9**	2,395
		4,943	4,633
Current Liabilities			
Trade and other payables	13	**(163,427)**	(165,046)
Lease Liabilities	10	**(20)**	(20)
Net current liabilities		**(158,504)**	(160,433)
Total assets less current liabilities		**67,027**	65,209
Non-current liabilities			
Lease Liabilities	10	**(94)**	(114)
Net assets		**66,933**	65,095
Equity			
Called up share capital	14	**1**	1
Share premium account		**29,199**	29,199
Retained earnings		**37,733**	35,895
Total shareholders' funds		**66,933**	65,095

The notes on pages 18 to 44 are an integral part of these financial statements.

The financial statements on pages 14 to 44 were approved by the board of Directors on 18 July 2024 and signed on its behalf by:

P Edwards
Director

Statement of changes in equity as at 31 March 2023

	Called up Share capital	Share premium account	Retained earnings	Total Shareholders' (deficit)/ funds
	£000	£000	£000	£000
Balance at 1 April 2021	**1**	**29,199**	**30,768**	**59,968**
Profit **for the** year	**-**	**-**	6,389	**6,389**
Other comprehensive loss	-	-	(1,262)	**(1,262)**
Balance at 31 March 2022	**1**	**29,199**	**35,894**	**65,095**
Profit for the financial year	-	-	1,839	**1,839**
Other comprehensive income/(loss)	**-**	**-**	**-**	**-**
	-	**-**	1,839	**1,839**
Balance at 31 March 2023	**1**	**29,199**	**37,733**	**66,933**

Notes to the financial statements

1 General information

Babcock Land Limited is a private company which is incorporated and domiciled in England and Wales, UK. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

Its ultimate controlling party is disclosed in note 22. 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) IFRS 7, ‘Financial instruments: Disclosures’
b) 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)
c) 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)

d) IAS 7, ‘Statement of cash flows’
e) Paragraph 30 and 31 of IAS 8 ‘Accounting policies, changes in accounting estimates and errors’
f) Paragraph 17 of IAS 24, ‘Related party transactions’ in respect of key management compensation
g) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS36, ‘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.

Adoption of new and revised standards

The following standards and amendments to IFRS became effective for the annual reporting period beginning on 1 April 2022 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 it parents and fellow subsidiaries. The Company is in a net asset position of £66,933k as at 31 March 2023. The net current liabilities position of £158,504,000 is due to intercompany amounts due to parent and group undertakings. These are not expected to be settled until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies confirming this position. Due to the net asset position of the Company, no letter of support from another Group entity is required or has been sought.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Revenue

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

(a) Performance obligations

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

In assessing whether the performance obligations are separately identifiable, the services are reviewed to determine the extent to which the goods or services within a contract are interrelated and whether they modify other goods or services within a contract. The Company also considers whether the goods and/or services are integrated and represent a combined output for which the customer has contracted. The integrated output nature of many of the services provided by the Company results in some contracts only having one performance obligation.

(b) Determination of contract price

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

Inclusion of variable consideration in the contract price requires the exercise of judgement in relation to the amount to be received through unpriced contract variations and claims (see section (e) below for further details) and variable elements of existing contracts, such as performance-based penalties and incentives, and gain/pain share arrangements where cost under/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 training), as the customer simultaneously receives and consumes the benefits of the Company's performance as it performs the services. Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company's performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

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

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

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

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

Assessment of contract profitability
Profit is recognised to the extent that the final outcome on contracts can be reliably assessed. Contract 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 outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

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

(e) Contract modifications

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

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

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

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

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

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

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

(f) Costs of obtaining a contract
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.

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.

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:

Equipment fixtures and fittings	3 years

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
The Company holds investments at the fair value of the assets, liabilities and contract intangible acquired being the consideration paid at the date of acquisition less provision for impairment of value.

Impairment is tested by reviewing the future cash flows based on various assumptions including growth, margins, additional business and extension of existing contracts.

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

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

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

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

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)*

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

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

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

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

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

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

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

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

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.

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

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

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

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

The fair value of plan assets is measured in accordance with the FRS 101 fair value hierarchy using appropriate valuation techniques.

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

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

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

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

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

Notes to the financial statements (continued)

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

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

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

b) Derivative financial instruments
Derivatives are initially recognised at fair value on the date a derivative is entered into and are subsequently remeasured at fair value. The Company designates certain derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

For derivatives that qualify as cash flow hedges, fair value gains or losses are deferred in equity until the underlying transaction is recognised.

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

The fair values of derivative financial instruments are determined by the use of valuation techniques based on assumptions that are supported by observable market prices or rates. The fair values of non-financial assets and liabilities are based on observable market prices or rates.

The carrying values of financial assets and liabilities which are not held at fair value in the Company Statement of Financial Position are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

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

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

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

Notes to the financial statements (continued)

2 Summary of significant accounting policies *(continued)*

Foreign currencies *(continued)*
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.

Provisions
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. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs. 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 based on estimated results on completion of contracts and contract assessments are updated regularly. A provision is made where operating leases are deemed to be onerous.

A provision for deferred consideration on acquisitions is recognised when the Company has a realistic expectation of the expense based on the Purchase and Sale Agreement.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

3 Critical accounting estimates and judgements

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

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

Notes to the financial statements (continued)

3 Critical accounting estimates and judgements *(continued)*

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. Each of the EMTC and TMASS contracts contain termination clauses whereby the customer can terminate the contracts with notice periods of between 1 and 6 months. The directors have considered whether the penalties associated with such termination clauses are 'substantive'.

Given the nature of any such penalties, the Directors have formed the judgement that these are not substantive for EMTC & TMASS. This judgement is primarily formed based on TUPE regulations applying should the customer terminate the contract. Since the costs associated with contracts are predominantly employee costs, any costs associated with termination to the Company, and in turn penalties applied to the customer, are not expected to be substantive. Where the penalties are substantial the Company takes the view that the customer is unlikely to cancel the contract and the contract should be accounted for over time.

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

Revenue and profit recognition
Revenue and profit recognition on contracts is based on estimates of outturn revenues and costs on a contract-by-contract basis. Decisions need to be made as to whether to account for the contract on a short term, point in time basis, or whether the contract should be accounted over a few years on a long term, contract over time basis. To determine which option to select the Directors have first considered the contract duration. Numerous factors are considered including the termination period of the contract. When considering whether revenue should be recognised over time, the Directors have considered the criteria outlined in IFRS15 para 35, with revenue recognised over time if any of the following three criteria are met:

- the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs; or
- the entity's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
- the entity's performance does not create an asset with an alternative use to the entity, and the entity has an enforceable right to payment for performance completed to date.

Revenue and profit recognition estimates on long term contracts can involve significant levels of estimation uncertainty. Estimating contract revenues can involve judgements around whether the Company will meet performance targets, earn incentives, pricing of any scope changes, and variations or claims under the contract. When considering variations to contracts, the Company must make a judgement as to whether the variation should be accounted for as a separate, distinct contract, or be considered and accounted for, as part of the original contract. This judgement will depend on the scope of the variation, its pricing, and the contractual terms.

Contract outturn assessments are carried out by suitably qualified and experienced personnel and include assessments of variable consideration and contract contingencies arising out of technical, commercial, operational, and other risks. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historic experience with that customer and similar contracts. A significant part of these judgements relates to cost estimation to completion of contracts. The assessment of all significant contracts is subject to review and challenge. As contracts near completion, often less judgement is needed to determine the size of the expected outturn.

Notes to the financial statements (continued)

Revenue and profit recognition (continued)

The Company uses the percentage of completion method of revenue recognition in all its long term contracts. In these long term contracts, revenue and expenses are incurred over multiple financial periods. This requires estimates of revenue and expenses over multiple periods, considering various elements such as the frequency and extent of the number of employees, materials and other resources required to fulfil the contract terms, billing rates and cost changes. Revisions that affect a contract's total estimated profitability results in an adjustment of earnings. Where necessary, provisions are established for any probable future losses.

Investments

The directors believe that the carrying value of the investment in Babcock Land Defence Limited is supported by the value-in-use of the entity.

The carrying value of the investment is included as a critical accounting judgement because of the material impact of the future income to the recoverable amount and the inherent judgemental nature of value-in-use calculations. The value in use is equal to the carrying value of the investment after impairment. Therefore, if any existing contracts are not extended as expected, or if there is a downturn in performance in those contracts.

4 Revenue

	2023	2022
	£000	£000
By area of activity:		
Provision of training - point in time	**9,550**	25,663
Provision of training and vehicle services – over time	**1,850**	1,288
	11,400	27,225

Revenue is wholly attributable to the principal activities of the Company and is of United Kingdom origin and destination.

Notes to the financial statements (continued)

5 Operating profit

Operating profit is stated after charging/(crediting):

	2023	2022
	£000	£000
Depreciation - property, plant & equipment (note 9)	**47**	56
Depreciation of right-of-use assets (note 10)	**23**	65
Interest on lease liabilities (note 10)	**1**	3
Loss on disposal of property, plant and equipment	**5**	-
Gain on sale of contracts	**-**	(3,437)

Fees paid to the Company's auditors, Deloitte LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. Auditor fees of £159,000 (2022: £159,000) were borne by a fellow group company

6 Finance income and costs

	2023	**2022**
	£000	**£000**
Finance income		
Bank interest income	**13**	**-**
	13	**-**

	2023	**2022**
	£000	**£000**
Finance costs		
Interest on lease liabilities	**(1)**	(3)
	(1)	(3)

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:

	2023 Number	2022 Number
By activity:		
Operations	**221**	529
Management and administration	**7**	11
	228	540

Their aggregate remuneration comprised:

	2023 £'000	2022 £'000
Wages and salaries	**6,560**	16,577
Social security costs	**664**	1,641
Other pension costs (note 22)	**570**	1,635
	7,794	19,853

Included in other pension costs are £nil (2022: £65,000) in respect of defined benefit scheme and £570,000 (2022: £1,570,000) in respect of the defined contribution scheme.

Notes to the financial statements (continued)

8 Tax

Tax expense included in the income statement

	2023	2022
	£000	£000
Current tax:		
UK Corporation tax on profits for the year	-	-
Current tax charge for the year	-	-
Deferred tax:		
Origination and reversal of timing differences	**(8)**	199
Adjustment in respect of prior years	**-**	19
Impact of change in UK tax rate	**(2)**	(1)
Total deferred tax charge (note 16)	**(10)**	217
Income tax expense	**(10)**	217

	2023	2022
	£000	£000
Tax income included in other comprehensive income		
Deferred tax:		
Tax impact of actuarial losses on pension liability	**-**	296
Impact of change in UK tax rate	**-**	-
Tax income included in other comprehensive income	**-**	296

The difference between the total current year tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2023	2022
	£000	£000
Profit/(loss) before income tax	**1,829**	6,605
Tax on profit at standard UK corporation tax rate of 19% (2022 19%)	**348**	1,255
Effects of:		
(Income not taxable)/Expenses not deductible for tax purposes	**-**	(653)
Group relief (claimed)/surrendered for nil consideration	**(355)**	(403)
Adjustment in respect of deferred tax for prior years	**-**	19
Impact of change in UK tax rate	**(3)**	(1)
Total tax charge for the year	**(10)**	217

On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Deferred tax balances as at 31 March 2022 that are expected to reverse after 1 April 2023 have been calculated at 25%.

Notes to the financial statements (continued)

8 Tax (continued)

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.

The major components of the deferred tax liabilities and deferred tax assets are recorded are as follows:

	Accelerated capital allowances £000	**Defined Benefit Pension Scheme £000**	**Other timing differences £000**	**Total £000**
At 1 April 2021	4	96	(26)	**74**
- Charged/(credited) to the income statement as restated	(8)	200	25	**217**
- (Credited) to other comprehensive income	-	296	-	**296**
Balance carried forward at 31 March 2022	**(4)**	**-**	**(1)**	**(5)**
(Credited)/charged to the income statement	(10)	-	-	**(10)**
At 31 March 2023	**(14)**	**-**	**(1)**	**(15)**

Notes to the financial statements (continued)

9 Property, plant and equipment

	Equipment Fixtures & Fittings £'000
Cost	
At 1 April 2022	440
Disposals	(440)
At 31 March 2023	**-**
Accumulated depreciation	
At 1 April 2022	(350)
Charge for the year	(47)
Disposals	397
At 31 March 2023	**-**
Net book value	
At 31 March 2023	**-**
At 31 March 2022	90

10 Leases

Right-of-use assets

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

	Motor vehicles £000
Cost	
At 1 April 2022	167
Additions	2
Disposals	(17)
At 31 March 2023	**152**
Accumulated Depreciation	
At 1 April 2022	(53)
Charge for the year	(23)
Contract novation	17
At 31 March 2023	**(59)**
Net book value	
At 31 March 2023	**93**
At 31 March 2022	114

Notes to the financial statements (continued)

10 Leases *(continued)*

Lease liabilities

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

	2023	2022
	£000	£000
Opening as at 1 April	134	19,046
Contract novation	-	(18,840)
Additions	2	7
Disposals	-	-
Interest charged	1	3
Payments	(23)	(82)
Closing as at 31 March	**114**	**134**

Discounted future minimum lease payments are as follows:

	31 March 2023	31 March 2022
	£000	£000
Within one year	**20**	20
In more than one year, but not more than five years	**94**	114
Carrying value of liability	**114**	134

The following are the amounts recognised in profit or loss:

	31 March 2023	31 March 2022
	£000	£000
Expense relating to short term leases	**13**	-
	13	-

Notes to the financial statements (continued)

11 Investments

	Shares in group undertakings £000
Cost	
At 1 April 2022	104,748
At 31 March 2023	**104,748**
Impairment	
At 1 April 2022	-
Charge for the year	-
At 31 March 2023	**-**
Net Book Value	
At 1 April 2022	104,748
At 31 March 2023	**104,748**

The shares in group undertakings represents 100% of the shares in Babcock Land Defence Limited.

12 Trade and other receivables

	2023 £000	2022 £000
Amounts due after more than one year:		
Amounts owed by group undertakings	**120,690**	120,690
	120,690	120,690

	2023 £000	2022 £000
Amounts falling due within one year:		
Trade receivables	**152**	1,303
Amounts owed by group undertakings	**4,675**	208
Contract assets	**8**	85
Other receivables	**70**	618
Prepayments	**14**	19
	4,919	2,233

Amounts due by Group undertakings comprises the following:

- A loan of £115,107,000 (2022: £115,107,000) is unsecured, interest free and repayable on demand.
- A loan of £4,345,000 (2022: £4,345,000) is unsecured, interest free and repayable on demand.
- A loan of £1,238,000 (2022: £1,238,000) is unsecured, interest free and repayable on demand.

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

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

Notes to the financial statements (continued)

13 Trade and other payables

	2023	2022
	£000	£000
Amounts falling due within one year:		
Trade Payables	**62**	56
Amounts owed to group undertakings	**160,075**	160,549
Contract liabilities	**3,118**	3,988
Other creditors	**130**	231
Accruals	**42**	222
	163,427	165,046

Amounts due to Group undertakings comprises the following:

- A loan of £140,000,000 (2022: £140,000,000) was due for repayment in 2028 up until 1 April 2021, with no interest charge. As of the 1 April 2021 the loan terms changed and subsequently the loan is unsecured, repayable on demand and interest free.
- All other amounts due to group are unsecured and repayable on demand, with no interest charge.

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 19).

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

	Contract cost accruals	**Advance payments**	**Total contract liabilities**
	£000	**£000**	**£000**
At 1 April 2022	188	3,800	**3,988**
Amounts utilised	(188)	(3,800)	**(3,988)**
Amounts accrued	156	2,961	**3,118**
At 31 March 2023	**188**	**2,961**	**3,118**

Notes to the financial statements (continued)

14 Share capital

	31 March 2023	31 March 2022
	£'000	£'000
Allotted, called up and fully paid		
1,002 ordinary shares of £1 each (2022: £1,002)	1	1

15 Dividends

No interim dividend payment has been made for this financial year (2022: £nil). There are no plans for a final dividend.

16 Guarantees and financial commitments

a) Capital Commitments

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

b) Lease Commitments

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

17 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.

18 Pension commitments

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

Babcock International Group Pension Scheme

The Company contributes into the Babcock Group wide defined contribution scheme. The total cost of pension contributions for employees of the Company during the year was £570,000 (2022: £1,570,000). On 31 March 2023, no contributions were payable to the fund (2022: £nil).

BIG Pension Scheme (BPS)

In prior years, the Company was a contributing employer to a defined benefit scheme however, all members of this scheme were novated to Babcock Land Defence Limited in the year end 31 March 2022. Contributions amounted to £nil (2021: £1,047,000). Up to the year ending 31 March 2022, the Company was 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 detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers 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 participating employer companies with the trustees who are advised by an independent, qualified actuary.

Notes to the financial statements (continued)

18 Pension commitments (continued)

BIG Pension Scheme (BPS) (continued)

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases, 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, an increase to normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is prudently 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 scheme's 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.

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 IAS 19 valuation has been updated as of 31 March 2022 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 March 2019. The major assumptions used for the IAS 19 valuation were:

Major assumptions	2023 %	2022 %
Discount rate (past service)	**0.00**	2.70
Salary increases (past service)	**0.00**	3.40
Deferred revaluation (past service)	**0.00**	3.70
Pension increases (past service)	**0.00**	3.46
Discount rate (future service)	**0.00**	2.70
Salary increases (future service)	**0.00**	3.30
Deferred revaluation (future service)	**0.00**	3.50
Pension increases (future service)	**0.00**	2.44
Inflation assumption	**0.00**	3.20

The mortality assumptions used were:

	2023 Years	2022 Years
Life expectancy from age 65 (male age 65)	**21.3**	**21.8**
Life expectancy from age 65 (male age 45)	**23.9**	**22.4**

Notes to the financial statements (continued)

18 Pension commitments (continued)

BIG Pension Scheme (BPS) (continued)

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the Statement of Financial Position date were:

	2023 £000	2022 £000
Equities	-	7,701
Property	-	121,945
High yield bonds / Emerging market debt	-	19,785
Absolute return and multi strategy funds	-	-
Bonds	-	662,075
Matching assets	-	652,608
Collateral	-	58,918
Scheme assets	-	1,523,032
Active position on longevity swaps		(65,800)
Total assets	-	1,457,232
Present market value of liabilities - funded		(1,283,066)
Pension Scheme Surplus	-	174,166

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

The scheme does not invest directly in assets or share of Babcock International Group PLC.

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

Analysis of amount charged to the income statement in Babcock International Group Plc

	2023 £000	2022 £000
Current service cost	-	5,873
Administrative expenses	-	2,506
Net interest income	-	(537)
Past service cost	-	-
Net periodic benefit cost	-	7,842

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 £nil for service cost and incurred expenses (2022: £nil) and net interest income of £nil (2022: £nil).

Notes to the financial statements (continued)

18 Pension commitments (continued)

Analysis of amount included in Babcock International Group Plc Statement of comprehensive income ("SOCI")

	2023	2022
	£000	£000
Assumptions gain/(loss) on liabilities	**-**	102,022
Experience gain/(loss) on liabilities	**-**	(16,961)
Gain on assets	**-**	17,706
Other gains put through OCI	**-**	2,601
OCI (31 March 2022 to 31 March 2023)	**-**	105,368

No actuarial loss is recognised in the SOCI in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, (2022: £1,555,000).

The equity investments and bonds are valued at bid price.

Reconciliation of present value of scheme assets in Babcock International Group Plc

	2023	2022
	£000	£000
Fair values as at 1 April	**-**	1,492,970
Interest on assets	**-**	29,358
Actuarial gains	**-**	17,706
Contributions by employer	**-**	58,808
Contributions by employee	**-**	71
Benefits and expenses paid	**-**	(75,881)
Fair values as at 31 March	**-**	**1,523,032**

	2023	2022
Reconciliation of present value of scheme liabilities	**£000**	£000
At 1 April	**-**	1,408,078
Service cost	**-**	5,873
Incurred expenses	**-**	2,506
Interest on liabilities	**-**	27,480
Employee contributions	**-**	71
Actuarial gain - demographics	**-**	(22,776)
Actuarial gain – financial	**-**	(79,246)
Experience losses	-	16,961
Benefits paid	-	(75,881)
Past service cost	-	-
At 31 March	**-**	1,283,066

Notes to the financial statements (continued)

18 Pension commitments (continued)

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 £nil (2022: £nil).

Retirement benefits and liabilities are discussed in the group financial statements on note 27 of the annual report of Babcock International group PLC, which does not form part of this report.

19 Contingent liabilities

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).

20 Post balance sheet events

In November 2023, the Company took part in a group wide loan rationalisation process which involved in the netting of intercompany payables and receivables loan balances. This resulted in an intercompany loan payables balance of £20.5m for which a new loan agreement was established.

21 Subsidiary undertaking

The subsidiary undertakings of the Company at 31 March 2023 are shown below. The Company and its subsidiaries are incorporated and domiciled in England and Wales. All holdings are in relation to ordinary shares. The registered office for the subsidiaries is 33 Wigmore Street, London W1U 1QX.

Name	Country of Incorporation	Percentage held
Babcock Land Defence Limited	UK	100%

The company performs military vehicle maintenance, training, provision of vehicles and infrastructure management.

22 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Defence & Security Holdings LLP, a limited liability partnership registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

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

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