DEFENCE
HOLDINGS

An Open Letter
to our Shareholders

FROM CEO, ANDREW ROUGHAN

Dear Shareholders,

Yesterday's announcement regarding Defence Holdings' cornerstone investment in the Defence Fund generated significant discussion amongst investors. I have followed that discussion closely and wanted to take the opportunity to provide some additional colour and context around how this investment fits within our long-term strategy, and to address a number of the key themes that have emerged since.

The Strategy in Context

When I joined Defence Holdings, I committed to building a business capable of creating significant long-term shareholder value through an integrated model built on five connected pillars announced in our Playbook in May: Accelerator, Investment, Product, Commercial Channel, and Technology Channel.

This means building a business that can generate profitable contracts and taking equity positions in high-potential companies that our model can support to a more successful outcome. The combination of revenue that drives profit and an equity portfolio is my planned value creation model.

Since May, we've made meaningful progress across each:

- Secured our first customer contract with the UK Ministry of Defence
- Launched Meridian with our inaugural cohort beginning soon
- Activated the Investment pillar through the Defence Fund

These aren't isolated announcements, they are deliberate milestones against the strategy I committed to delivering.

Addressing Your Questions

On Capital Deployment

The June fundraising was designed to execute this strategy. The £2 million cornerstone investment into the Fund forms part of that plan. It is not capital diverted from operations; it is capital strengthening the ecosystem that supports our business.

Structurally, because the Fund is a managed Alternative Investment Fund, investors (including Defence Holdings) get a direct, look-through economic interest in the underlying portfolio companies, so there is no material economic difference between Defence Holdings investing in a target company directly or via the Fund. What the Fund route adds is the ability to share risk and capital with other professional investors, giving access to more and potentially larger opportunities than Defence Holdings' own balance sheet could support alone, without concentrating Defence Holdings' capital in any single early-stage position.

To be clear: this investment does not signal that Defence Holdings will require additional equity funding for working capital.

Why Not Manage the Fund Ourselves?

It's a fair question. The answer comes down to two things: scale and structure.

The sovereign defence technology opportunity is uniquely large. Meaningful participation requires access to substantially more capital than our balance sheet could reasonably deploy. A dedicated investment vehicle allows us to attract institutional and private capital alongside our own supporting more companies, participating in larger rounds, and building a stronger portfolio than we could alone.

Just as importantly, Defence Holdings is an operating technology company, not a venture capital fund. My job is to build sovereign software capability, win contracts, and create commercial value. Embedding an investment platform directly in the listed company would fundamentally change that focus.

Beyond practical limits on direct investment it is important to recognise our transition status associated with our listing. This structure limits the freedom the company has to make direct investments into companies and / or introduces the risk that any investment activity would inadvertently trigger a reverse takeover process, introducing cost, complexity, and distraction precisely when we need to execute the operating plan.

A dedicated vehicle lets us stay focused on what we do best: building products, winning contracts, and supporting customers while participating economically in a structure capable of attracting substantially larger pools of capital.

On Protections and Governance

Defence Holdings will never pay a performance carry on its cornerstone investment. That exemption was negotiated from the outset to ensure Defence Holdings participates fully in value creation without performance fees reducing your returns. Regarding the Founding Principals: they are not passive beneficiaries. They are responsible for creating value within the Fund.

I will lead investment due diligence on commercial development and product strategy of the considered investments. Brian Stockbridge will oversee finance and legal matters. Andy McCartney will lead technology assessment. Richard Bassett will assess customer engagement and operational integration. Together, we'll identify opportunities, undertake due diligence, support portfolio companies, and work alongside management teams to maximise value creation - lots of the work we will be doing anyway through Meridian, but within the Fund's separate governance structure and investment process.

The Founding Principals receive no fixed or ongoing remuneration from the Fund in that capacity. Their economic participation is limited to a share of performance carry attributable to successful investments funded from outside capital. If value isn't created (or if we are unable to source further capital), there is no performance carry. The Fund is managed through a separate structure with an independent FCA authorised Alternative Investment Fund manager responsible for the fund in accordance with its regulatory obligations. First Sentinel Corporate Finance Limited acts as investment adviser to the Fund and provides regulated investment advisory services within that structure.

First Sentinel has also funded certain establishment costs of the Fund, and is contractually responsible for meeting specified service provider costs, including those of the fund manager, custodian and administrator from the Fund's 2% annual management fee arrangements.

These arrangements allow Defence Holdings and the Founding Principals to contribute their specialist commercial and sector expertise while preserving the Fund's separate governance, regulatory oversight and investment decision making framework.

Practically, executing this strategy at pace requires experienced partners who understand both our business, the businesses in which the Fund may invest, and the regulatory environment, within which investment activity takes place.

In Closing

I appreciate this decision will not be universally supported today. But leadership isn't about making the easiest decision, it's about making the decision you believe creates the greatest long-term value.

My standard is this: building the strongest sovereign defence technology business possible over the next three to five years. That's the standard against which I hope you'll judge me.

I hope this letter provides greater context around yesterday's announcement. Later this week, I will be sitting down for a longer-form interview to explore these topics in greater detail, alongside a number of adjacent strategic themes relating to Defence Holdings PLC.

We look forward to sharing further details on the timing and publication of that interview later this week.

Thank you for your continued support.

Yours,

Andrew Roughan
Chief Executive Officer
Defence Holdings PLC

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