Babcock Rail Limited

Annual report and financial statements

for the year ended 31 March 2024

Company registration number:

02999826

COMPANY INFORMATION

Directors	S J Bell D G Hall M T Abbott
Company Secretary	Babcock Corporate Secretaries Limited
Registered Number	02999826
Registered Office	33 Wigmore Street London W1U 1QX
Independent Auditor	Deloitte LLP 1 New Street Square London EC4A 3HQ

CONTENTS

Strategic report for the year ended 31 March 2024

The Directors present their Strategic report on the Company for the year ended 31 March 2024.

Principal activities
The Company's principal activity is principally the renewal and enhancement of railway infrastructure. Babcock Rail Limited focuses on rail infrastructure work with its range of design, construction and commissioning services covering track renewals, signalling and control technology, specialist rail plant provision and rail power systems.

Business review

	2024	2023
	£'000	£'000
Revenue	**170,951**	165,449
Profit for the financial year	**12,000**	8,662
Net Assets	**131,236**	133,038

The underlying operations had a successful year increasing revenues through an increase in volume from £165.4m to £171.0m, primarily across the Track and Signalling and Telecommunications frameworks with Translink, as well as increased activity through the Medium Signalling Framework in Scotland with the associated operational profits flowing through to the bottom line.

The Rail Systems Alliance Scotland framework with Network Rail continues to operate well for the Company. Volumes in the year decreased on prior years from £79m to £59m in FY24, due to lower volume in the domestic workbank in the final year of the CP6 framework offset by increased project work. During the year it was confirmed that the business will continue as part of the Alliance into the next control period CP7. The Operating profit has increased from the prior year. The operating profit margin percentage (FY24 3.5% v FY23 3.2%) which has been driven by strong trading and good control over overheads spend.

The track and signalling and telecommunications frameworks with Translink continue to operate well for the Company, delivering key projects within Northern Ireland. Volumes in the year increased on prior years from £70m to £81m in FY24 as programmes increasingly progress from design to build and/or construction phases. This centred around 2 key infrastructure projects at Belfast Transport Hub and Lisburn, both of which were across the 2 frameworks.

In Signalling and Telecoms, the focus continues to be on the Scotland Medium Framework contract for Network Rail which was awarded during FY20. The framework is delivering projects of varying value, including design and feasibility services, level crossing renewals, axle counter upgrades and telecoms system renewals.

Our On-Track-Plant division continues to successfully deliver through our SB Rail joint venture, with outstanding reliability and successful delivery across our specialist National Plant Framework throughout the UK and strong performance from the specialist cranes supporting track renewals Alliances and major projects across the UK.

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2024, which does not form part of this report.

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

Strategic report for the year ended 31 March 2024 (continued)

Principal risks and uncertainties *(continued)*

The key risks and uncertainties affecting the Company are considered to be related to infrastructure economic policy; future UK rail restructuring with the proposed creation of Great British Railways; health, safety and environmental incidents; client tendering strategy and availability of skilled and technical resource. The Directors manage these risks and uncertainties through regular reviews and mitigation planning together with key client / funder engagement. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 89 to 106 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

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

	2024	2023	
Revenue Growth	3.4%	13.4%	The reduction in the performance from FY23 was to be expected for a couple of reasons. FY24 was the final year of CP6, where the revenue on the contract has historically been lower than the earlier years as aligned with the funding constraints at the end of the control period. Secondly growth in FY23 on Translink was significant as a result of the commencement of major infrastructure projects and the completion of other works. While FY24 increased further the year on year growth was representative of the continued delivery against these major infrastructure projects.
Operating Return on Revenue (ORR)	3.5%	3.2%	Improved return on increased volume as detailed above in the business review and continued control over administrative costs to deliver.
Order book and frameworks	£280.9m	£385.3	The reduction reflects the work performed on the Alliance and major projects in Translink which were won in 2023 and delivered in the year ended 31 March 2024.
Total injuries rate per 200,000 hours worked	0.7	0.6	Health and Safety is a core value for the Company. The data includes all reported injuries

S172(1) Statement and Stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 60, 61, and 119 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 2024 (continued)

S172(1) Statement and Stakeholder engagement *(continued)*

Depending on the matter under consideration the relevance of the different factors set out in s172(1) will vary. The Board does seek to balance the interests of its different stakeholders, but, where there are competing interests, not every decision the Board has made will result in a positive outcome for all our stakeholders. However, by considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company's culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

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

What matters to them:

- Safety
- Operational excellence
- Value for money

Investors

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

Suppliers

The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors 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 Company's implementation of the Group-wide Procurement Strategy as described on pages 16-17 and 86-87 of the annual report of Babcock International Group PLC.

Regulators

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

What matters to them:

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

Strategic report for the year ended 31 March 2024 (continued)

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

Employees

Employee engagement is a primary focus for the Directors of the Company. 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 Company's implementation of the Group-wide People Strategy as described on pages 12 to 17 and 80 to 84 of the annual report of Babcock International Group PLC, which does not form part of this report.

What matters to them:

- Remuneration and reward
- Professional development
- The Company's aims, goals, priorities and reputation
- Health, safety and wellbeing
- Inclusion and diversity

Communities

We are committed to the communities in which we operate and the broader interests of the customers we serve. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key aspect of our ESG strategy.

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.

The Company requires an efficient and highly effective supply chain to support its business operations and strategy. This means the Directors 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.

Strategic report for the year ended 31 March 2024 (continued)

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

Sustainability and environment

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. 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 remains a key focus. Building on our Group wide climate-related risk management process from last year, which considered the following time horizons: short (present to 2030), medium (2030 to 2040), and long-term horizons (2040 to 2100), sectors and regions considered the insight and recommendations from the KPMG climate-related risk assessment report and identified the immediate actions required in their five-year strategic plans to support corporate commitments. These included Net Zero, wider environmental targets, and to address key climate-related risks and opportunities.

These activities form part of the Group-wide ESG Strategy as described on pages 62 to 88 of the annual report of Babcock International Group PLC, which does not form part of this report.

This report was approved by the board on 12th December 2024 and signed on its behalf by:

D G Hall

Director

12th December 2024

Directors' report for the year ended 31 March 2024

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2024.

Dividends

The Directors have not declared a dividend for the year (2023: £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:

- S J Bell
- S Doherty (resigned 30 September 2024)
- D G Hall
- M Hayward (resigned 24 May 2024)
- M T Abbott (appointed 19 November 2024)

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

Future developments

The directors are confident about the future trading prospects of the company due to its current order book and market opportunities which exist at the balance sheet date.

The orderbook and framework of the business sits at £281m as at 31 March 2024 (FY23 £385m) and contains secured orders to the year ended 31 March 2029 due to the frameworks that the business has with Network Rail and Translink. This metric is one that the business reviews regularly along with pipeline information to ensure continued level of trading and the appropriate size of the business. The reduction from the prior year reflects the work done across both the Alliance and Translink portfolio's. The secured work on the Alliance will reduce over the life of the framework. Whereas Translink reflects the high volume of work performed on Belfast Transport Hub that was included at 31 March 2023 which was delivered in FY24 and the move to new Frameworks being tendered. The year ended 31 March 2024 was particularly strong given the business' involvement in large scale projects in Northern Ireland such as the works at Belfast Transport Hub, where orders that were received in November 2023 will continue to provide work into FY25.

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £8,045,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the respective other group companies confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, 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.

Directors' report for the year ended 31 March 2024 (continued)

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.

Employment of disabled persons

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

Employee involvement

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

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 12 to 17 and 81 to 84 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 6 of the Strategic Report.

Safety policy

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

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 2024 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 5.

Directors’ report for the year ended 31 March 2024 (continued)

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate. The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Qualifying third party indemnity provisions

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

Post balance sheet events

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

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

Deloitte LLP are not seeking reappointment as auditors of the Company and a resolution appointing Forvis Mazars LLP as their replacement has been proposed and approved by the Annual General Meeting.

This report was approved by the board on 12th December 2024 and signed on its behalf by:

D G Hall

Director

12th December 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Babcock Rail Limited

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

OPINION

In our opinion the financial statements of Babcock Rail Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 March 2024 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 24.

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

Independent auditors' report to the members of Babcock Rail Limited *(continued)*

OTHER INFORMATION

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

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

We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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.

Independent auditors' report to the members of Babcock Rail Limited *(continued)*

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the UK Companies Act and relevant tax 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 pension and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

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

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

- Obtaining an understanding of relevant manual and IT controls and project accounting processes which management have established to ensure that contracts are appropriately forecast, managed, challenged and accounted for;
- Obtaining an understanding of the contract including relevant contractual clauses and terms and conditions;
- 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;
- Assessing management's IFRS 15 accounting papers and other technical papers setting out judgements taken;
- 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;
- Assessing delivery progress and challenging key areas of estimation in overall contract revenue and cost;
- Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract, the associated contingencies and where relevant exit liabilities;
- Substantively testing a sample of actual costs incurred to date to check whether these had been recorded appropriately;
- Recomputing the cumulative-catch-up adjustments (CCAs) recorded by management;
- Assessing the underlying inflation assumptions against competitors, the wider market and inflation rates;
- 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;

Independent auditors' report to the members of Babcock Rail Limited *(continued)*

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

- Enquiring with in-house and external legal counsel regarding contract related litigation and claims and contractual entitlement relating to applicable regulations. In addition, obtaining evidence of settlement agreements with customers and where relevant reviewed associated legal correspondence and expert advice;
- Considering whether there were any indicators of management override of controls or bias in arriving at their reported position; and
- Assessing the appropriateness of disclosures in the financial statements.

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

We have nothing to report in respect of these matters.

Independent auditors' report to the members of Babcock Rail Limited *(continued)*

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.

Signed by:
James Isherwood
19750BCA07604EA...

James Isherwood ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
12th December 2024

Income statement for the year ended 31 March 2024

	Note	**2024 £'000**	2023 £'000
Revenue	4	**170,951**	165,449
Cost of revenue		**(154,503)**	(149,973)
Gross profit		**16,448**	15,476
Administrative expenses		**(10,500)**	(10,093)
Operating profit	5	**5,948**	5,383
Share of results of joint ventures and associates		126	360
Finance income	6	8,081	5,147
Finance costs	6	**(1,780)**	(2,269)
Profit before taxation		**12,375**	8,621
Income tax (charge)/credit	9	**(375)**	41
Profit for the financial year		**12,000**	8,662

The notes on pages 21 to 50 form part of these financial statements.

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2024

	Note	**2024 £'000**	2023 £'000
Profit for the financial year		**12,000**	8,662
Other comprehensive (expense)/income:			
Items that will not be subsequently reclassified to income statement:			
(Loss) / Gain on remeasurement of net defined benefit obligation	20	**(18,402)**	66,058
Tax on net defined benefit obligation	9	**4,600**	(16,478)
Total comprehensive (expense)/income for the year		**(1,802)**	58,242

Statement of financial position as at 31 March 2024

	Note	**2024 £'000**	2023 £'000
Fixed Assets			
Property, plant and equipment	11	**337**	653
Right-of-use assets	12	**3,589**	2,906
Investments in joint ventures and associates	13	**164**	163
Retirement benefit surpluses	20	**-**	14,204
Deferred tax assets	9	**1,117**	-
Trade and other receivables	15	**141,880**	169,034
		147,087	186,960
Current assets			
Inventories	14	**748**	672
Trade and other receivables	15	**11,479**	17,485
Contract assets	15	**14,695**	8,154
Cash and cash equivalents		**31,102**	8,651
		58,024	34,962
Creditors: amounts falling due within one year			
Lease liabilities	12	**(1,330)**	(1,884)
Trade and other payables	16	**(64,212)**	(79,152)
Provisions	17	**(527)**	-
Net current liabilities		**(8,045)**	(46,074)
Total assets less current liabilities		**139,042**	140,886
Creditors: amounts falling due after more than one year			
Lease liabilities	12	**(2,383)**	(1,544)
Deferred tax liabilities	9	**-**	(3,108)
Retirement benefit deficits	20	**(2,244)**	-
Provision for liabilities	17	**(3,179)**	(3,196)
Net assets		**131,236**	133,038
Capital and reserves			
Called up share capital	18	**10**	10
Share premium account		**88,950**	88,950
Other reserves		**916**	916
Retained earnings		**41,360**	43,162
Total shareholders' funds		**131,236**	133,038

The notes on pages 21 to 50 are an integral part of these financial statements.
The financial statements on pages 17 to 50 were approved by the board of Directors on 12th December 2024 and signed on its behalf by:

D G Hall
Director :

Statement of changes in equity as at 31 March 2024

	Note	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total shareholders funds £'000
Balance at 1 April 2022		10	88,950	916	(15,080)	74,796
Profit for the financial year		-	-	-	8,662	8,662
Other comprehensive income		-	-	-	49,580	49,580
Balance at 31 March 2023		**10**	**88,950**	**916**	**43,162**	**133,038**
Profit for the financial year		**-**	**-**	**-**	**12,000**	**12,000**
Other comprehensive expense		**-**	**-**	**-**	**(13,802)**	**(13,802)**
Balance at 31 March 2024		**10**	**88,950**	**916**	**41,360**	**131,236**

Notes to the financial statements

1 General information

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

Its ultimate controlling party is disclosed in note 24. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of material accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

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

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

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'.
b) Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations'.
c) Paragraph 33(c) of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
d) IFRS 7, 'Financial instruments: Disclosures'.
e) 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).
f) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
g) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.
h) 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).

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

i) Paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
j) IAS 7, 'Statement of cash flows'
k) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'.
l) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation.
m) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.
n) Paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 Impairment of Assets.

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

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

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

Adoption of new and revised standards

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

- IFRS 17, '*Insurance Contracts*': IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4.
- Amendments to IAS 1, *'Presentation of Financial Statements'*: The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies.
- Amendments to IAS 8, '*Accounting Policies, Changes in Accounting Estimates and Errors*': The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates.
- Amendments to IAS 12, '*Income Taxes*': The amendments introduce a further exception from the initial recognition exemption.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date. The following new or amended IFRS accounting standards, amendments and interpretations not yet adopted are not expected to have a significant impact on the Company:

- Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to IAS 1: Classification of Liabilities as Current or Non-current
- Amendments to IAS 1: Non-current Liabilities with Covenants
- Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements
- Amendments to IFRS 16: Lease Liability in a Sale and Leaseback

All standards listed above will be adopted with effect from 1 April 2024 with the exception of the Amendments to IFRS 10 and IAS 28 for which the mandatory effective date has not yet been set by the IASB.

Notes to the financial statements (continued)

2 Summary of material accounting policies *(continued)*

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 centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current liabilities position of £8.0m but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so, and the Company has received confirmation from the respective other group companies confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue, and the Company has received a letter of support from Babcock International Group PLC confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group PLC to provide such finance.

Given the above assessment, 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.

Joint Ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. The Company's interests in joint ventures are accounted for by the equity method of accounting and are initially recorded at cost. The Company's investment in joint ventures includes goodwill (net of any accumulated impairment loss) identified on acquisition. The carrying values of joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired. The Company's share of its joint ventures post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. If the Company's share of losses in a joint venture equals or exceeds its investment in the joint venture, the Company does not recognise further losses unless it has incurred obligations to do so. Unrealised gains and losses on transactions between the Company and its joint ventures are eliminated to the extent of the Company's interest in the joint venture. Loans to joint ventures are valued at amortised cost less provision for impairment.

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.

2 Summary of material accounting policies *(continued)*

Revenue (*continued)*

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

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

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

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and

experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that such variable consideration is not considered highly probable.

Variable consideration may be included in the total transaction price or, in certain circumstances, may be allocated to a specific time period. Where variable consideration is allocated to a specific time period this will typically be in relation to performance related deductions.

(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.

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.

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

Revenue recognised over time *(continued)*
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 amount of revenue recognised by the Company (as measured by the methods described above) exceed the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (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.

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 a provision. Further detail is included in the Provisions accounting policy.

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(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 modifications as described in paragraph 18 of IFRS 15.

Accounting for contract modifications
The Company accounts for contract modifications in one of three ways, based on the facts and circumstances of the contract modification:
1. Prospectively, as an additional, separate contract;
2. Prospectively, as a termination of the existing contract and creation of a new contract; or
3. As part of the original contract using a cumulative catch-up.

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

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

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.

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(g) Costs to fulfil a contract
Costs to fulfil a contract which do not fall within the scope of another standard are recognised under IFRS 15 as an asset in capitalised contract costs where they meet all of the following criteria:

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

Costs of recruiting or training staff are expensed as incurred.

(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.

Finance costs

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

Finance income

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

Employee benefits

(a) Pension obligations
Defined benefit scheme
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.

2 Summary of material accounting policies *(continued)*

Employee benefits *(continued)*

(a) Pension obligations *(continued)*

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

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

Taxation

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

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

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

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

2 Summary of material accounting policies *(continued)*

Taxation *(continued)*

(b) Deferred income tax *(continued)*
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.

Intangible assets

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

Goodwill
Goodwill relating to acquisitions prior to transition date is maintained at its net book value on the date of transition to FRS 101.

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

Property, plant and equipment

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

Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

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

Leases

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.

2 Summary of material accounting policies *(continued)*

Leases *(continued)*

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'.

Investments

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

Investments in Joint Ventures

Investment in Joint ventures have been accounted for using Equity Method.

Impairment of non-current assets

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

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.

2 Summary of material accounting policies *(continued)*

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads.

Spare parts that are consumed in the sale of goods or in the rendering of services are classified as inventory.

Cash and cash equivalents

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

Trade and other receivables

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

The Company 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.

Trade and other receivables (including amounts due from group undertakings) are also stated at their cost less expected credit losses. A provision for expected credit losses is established under IFRS 9 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 Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Forward-looking factors are applied to homogenous groups of receivables which share characteristics and are based on an estimate of how corporate failure rates may change relative to historic levels given the current economic environment.

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

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

Trade and other payables

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

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

Amounts due to group undertakings in relation to intercompany loans are recorded on the statement of financial position in line with settlement terms on underlying loan agreements. Inter-company loans payable at the balance sheet date that are settled within twelve months are recorded as current liabilities.

2 Summary of material accounting policies *(continued)*

Provisions

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

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

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

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 22 for details of contingent liabilities.

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.

2 Summary of material accounting policies *(continued)*

Fair value measurement

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

The fair values of 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 balance sheet are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

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

Dividends

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

Foreign currencies

(a) Functional and presentational 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 presentational currency.

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

3 Critical accounting estimates and judgements

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

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

3 Critical accounting estimates and judgements *(continued)*

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

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

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

Defined benefit pension schemes obligations
The Company's defined benefit pension schemes are assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 20.

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

4 Revenue

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

	2024 **£'000**	2023 £'000
Provision of services – transferred over time	**170,951**	165,449
	170,951	165,449

	2024 **£'000**	2023 £'000
By geographical area:		
United Kingdom	**170,908**	165,449
Rest of Europe	**43**	-
	170,951	165,449

5 Operating profit

Operating profit is stated after charging / (crediting):

	2024 **£'000**	2023 £'000
Depreciation of property, plant and equipment (Note 11)	**316**	317
Right of use depreciation (Note 12)	**1,186**	1,718

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 £117,000 (2023: £117,000) were borne by a fellow group company.

6 Finance income and costs

	2024 **£'000**	2023 £'000
Finance income:		
Loan interest receivable from group undertakings	**8,081**	5,147
Finance costs:		
Bank interest	**-**	(92)
Lease interest	**(151)**	(190)
Loan interest payable to group undertakings	**(935)**	(590)
Retirement benefit interest (Note 20)	**(694)**	(1,384)
Share of joint venture interest	**-**	(13)
	(1,780)	(2,269)

7 Staff costs

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

	2024 Number	2023 Number
By activity:		
Operations	**374**	357
Management and administration	**371**	368
	745	725

Their aggregate remuneration comprised:

	2024 £'000	2023 £'000
Wages and salaries	**47,621**	43,877
Social security costs	**5,755**	5,016
Pension costs – defined contribution plans (Note 20)	**457**	2,431
Pension costs – defined benefit plans (Note 20)	**2,065**	3,107
	55,898	54,431

During the year, the average number of employees recharged to other Babcock entities was 5 (2023: 7). During the year, the average number of employees recharged from other Babcock entities was 4 (2023: 1). The total cost recharged included in the above was nil (2023: nil).

8 Directors' emoluments

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

	2024 £'000	2023 £'000
Remuneration (including benefits in-kind)	**196**	376
Defined contribution pension scheme	**10**	20
	206	396

During the year no (2023: none) Directors remunerated by Babcock Rail Limited exercised share options under long term incentive plans and three (2023: three) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Directors (2023: none) under defined benefit pension schemes.

Four directors held office at some point during the year and up to date of signing the annual report. Except for one (2023: two) Directors, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

8 Directors' emoluments *(continued)*

The above amounts include the following in respect of the highest paid Director:

The emoluments of the directors which was paid by the Company was as follows:	**2024 £'000**	2023 £'000
Remuneration (including benefits in-kind)	**196**	181
Defined contribution pension scheme	**10**	20
	206	201

The highest paid Director did not exercise shares under long term incentive plans (2023: did not exercise shares under long term incentive plans).

9 Tax

Income tax (charge)/credit

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Analysis of tax (charge)/credit in the year		
Current tax		
• UK current year (charge)/credit	**-**	-
	-	-
Deferred tax		
• UK current year (charge)/credit	**375**	(59)
• Impact of changes in tax rates	**-**	18
Total income tax (charge)/credit	**375**	(41)

Tax (charge)/credit to the statement of comprehensive income

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
• Tax impact of actuarial losses/(gains) on pension liability	**4,600**	(12,551)
• Impact of changes in tax rates	**-**	(3,927)
Total income tax (charge)/credit to other comprehensive income	**4,600**	(16,478)

9 Tax *(continued)*

Income tax (charge)/credit *(continued)*

The tax for the year is lower (2023: lower]) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Profit before tax	**12,375**	8,621
Profit multiplied by rate of corporation tax in the UK of 25% (2023: 19%)	**3,094**	1,638
Effects of:		
Expenses not deductible for tax purposes	**71**	(12)
Group relief claimed for nil consideration	**(2,790)**	(1,685)
Impact of changes in tax rates	**-**	18
Total income tax (charge)/credit	**375**	(41)

On 24 May 2022, 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 2024 that are expected to reverse after 1 April 2024 have been calculated at 25%.

Deferred tax

Deferred tax assets and deferred tax liabilities have been offset if, and only if, there is a legally enforceable right in that jurisdiction to set off corporation tax assets and corporation tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same Taxation Authorities:

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Deferred tax asset	**1,117**	443
Deferred tax liability	**-**	3,551
	1,117	(3,108)

9 Tax *(continued)*

Deferred tax *(continued)*

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

	Tangible assets £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 April 2023	107	(3,551)	336	(3,108)
Income statement credit/(debit)	(11)	(489)	125	(375)
Tax credit/(debit) to other comprehensive income/equity	-	4,600	-	4,600
At 31 March 2024	96	560	461	1,117
At 1 April 2022 (restated)	122	12,810	397	13,329
Income statement credit/(debit)	(15)	117	(61)	41
Tax credit/(debit) to other comprehensive income/equity	-	(16,478)	-	(16,478)
At 31 March 2023	107	(3,551)	336	(3,108)

Deferred tax assets have been recognised in respect of temporary differences giving rise to deferred tax assets because the Directors believe that it is probable that these assets will be recovered.

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

10 Intangible assets

	Total £'000
Cost	
At 1 April 2023 and at **31 March 2024**	**13,600**
Accumulated amortisation and impairment	
At 1 April 2023 and at **31 March 2024**	13,600
Net book value	
At 1 April 2023 and at **31 March 2024**	**-**

The goodwill arose on the acquisition of the trade and assets of First Projects Limited.
During the year, goodwill was tested for impairment as at 31 March 2024 in accordance with IAS 36. This impairment analysis is performed on an annual basis, as outlined in the Company's accounting policies.

Results of goodwill impairment test
The current year impairment test results in no change in the goodwill recognised by the business.

11 Property, plant and equipment

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2023	2,573	8,295	**10,868**
Additions	-	-	-
Disposals	-	-	-
At 31 March 2024	**2,573**	**8,295**	**10,868**
Accumulated depreciation			
At 1 April 2023	1,997	8,218	**10,215**
Charge for the year	285	31	316
Disposals	-	-	-
At 31 March 2024	**2,282**	**8,249**	**10,531**
Net book value			
At 31 March 2024	**291**	**46**	**337**
At 31 March 2023	576	77	653

12 Leases

Right-of-use assets
The Company leases buildings and vehicles under non-cancellable lease arrangements.

	Property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2023	7,724	2,216	**9,940**
Additions	1,972	298	2,270
Terminations	(479)	(784)	(1,263)
At 31 March 2024	**9,217**	**1,730**	**10,947**
Accumulated depreciation			
At 1 April 2023	5,557	1,477	**7,034**
Charge for the year	843	343	1,186
Terminations	(124)	(738)	(862)
At 31 March 2024	**6,276**	**1,082**	**7,358**
Net book value			
At 31 March 2024	**2,941**	**648**	**3,589**
At 31 March 2023	2,167	739	2,906

12 Leases *(continued)*

Lease liabilities

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

	2024	2023
	£'000	£'000
At 1 April	**3,428**	4,432
Additions	**2,270**	952
Disposals	**(331)**	-
Interest charged	**151**	190
Payments	**(1,805)**	(2,146)
At 31 March	**3,713**	3,428

Discounted future minimum lease payments are as follows:

	31 March 2024	31 March 2023
	£'000	£'000
Within one year	**1,330**	1,884
In more than one year, but not more than five years	**1,989**	1,544
After five years	**394**	-
Carrying value of liability	**3,713**	3,428

The Company had total cash outflows for leases of £1,805,000 for the year ended 31 March 2024 (2023: £2,146,000).

The following are the amounts recognised in profit or loss:

	31 March 2024	31 March 2023
	£'000	£'000
Depreciation expense on right to use assets	**1,186**	1,718
Interest expense on lease liabilities	**151**	190
	1,337	1,908

13 Investments in joint ventures

	31 March 2024	31 March 2023
Cost		
At 1 April	163	172
Share of profit	126	360
Dividend received	(125)	(350)
Disposals	-	(19)
At 31 March	**164**	163

The Company's joint ventures are:

	Year end	Business Activity	% 2024	% 2023	Country
FSP (2004) Limited	31 Mar	Plant hire	50.0%	50.0%	UK
ABC Electrification Limited	31 Mar	Railway electrification Services	33.3%	33.3%	UK

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

14 Inventories

	31 March 2024 £'000	31 March 2023 £'000
Raw materials	**748**	672

15 Trade and other receivables

	31 March 2024 £'000	31 March 2023 £'000
Amounts due after more than one year:		
Deferred tax asset	**1,117**	-
Amounts due from parent and group undertakings	**141,880**	169,034
	142,997	169,034
Amounts falling due within one year:		
Trade receivables	**9,542**	11,597
Contract assets	**14,695**	8,154
Amounts due from parent and group undertakings	**1,533**	4,834
Amounts due from joint venture	**7**	449
Other receivables	**-**	61
Prepayments	**397**	544
	26,174	25,639

Amounts due after more than one year from group undertakings represent intercompany loans.

During the year, intercompany borrowings were rationalised from multiple loan arrangements into one. At 31 March 2024 amounts due from entities with joint control or significant influence comprised a loan of £140,638,000 repayable on demand with an interest rate of three months LIBOR plus 1.5%.

At 31 March 2023 intercompany borrowings comprised the following:
- One loan of £15,000,000 repayable on demand, the interest rate was 6 months LIBOR plus 4%.
- Four loans totalling £95,000,000 repayable on demand, the interest rate was 6 months LIBOR plus 1%.
- Five loans totalling £39,155,000 repayable on demand with no interest charge.

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

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

15 Trade and other receivables *(continued)*

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

- Retentions held by our Translink customer on major projects works done, in line with the contract, have increased by £2.0m to £4.3m in FY24. These are expected to unwind as the major projects complete.
- The increase in volume towards the end of the financial year have led to an increase in the debtors in line with the expected normal debtors cycle.

	£'000
At 1 April 2023	8,154
Transfers from contract assets recognised at the beginning of the year to trade receivables	(8,154)
Increase due to work done not transferred from contract assets	14,695
At 31 March 2024	14,695

	£'000
At 1 April 2022	4,314
Transfers from contract assets recognised at the beginning of the year to trade receivables	(4,314)
Increase due to work done not transferred from contract assets	8,154
At 31 March 2023	8,154

16 Trade and other payables

	2024 £'000	2023 £'000
Amounts falling due within one year:		
Trade payables	**3,507**	1,698
Contract liabilities	**18,965**	14,823
Debenture loan stock	**5,700**	5,700
Amounts due to parent and group undertakings	**28,651**	46,756
Amounts due to joint ventures	**230**	402
Other taxation and social security	**7,068**	6,684
Other payables	**91**	3,089
	64,212	79,152

During the year, intercompany borrowings were rationalised from multiple loan arrangements into one receivable loan, see Note 15.

As at 31 March 2023 intercompany payable borrowings comprised the following:

- Two loans of £13,000,000 repayable on demand the interest rate was 6 month LIBOR plus 1%.
- Three loans totalling £18,233,940 are repayable on demand, with no interest charge.
- All other amounts due to group undertakings are unsecured and repayable on demand.

The debenture loan stock is repayable on demand. Interest at a commercial rate is applicable from the date on which the holder of the stock demands its repayment.

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 22).

17 Provisions for liabilities

The Company had the following provisions during the year:

	Environment £'000	Impairment £'000	Employee benefits and reorganisation costs £'000	Property £'000	Total £'000
At 1 April 2023	-	2,183	64	949	**3,196**
Charged to the income statement	527	-	-	47	574
Utilised in the year	-	-	(64)	-	(64)
At 31 March 2024	**527**	**2,183**	**-**	**996**	**3,706**

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

				31 March 2024 £'000	31 March 2023 £'000
Current				527	64
Non-current				3,179	3,132
Total				**3,706**	**3,196**

The environment provision is in relation to rectification that will be required on a leased site in Rutherglen for contamination on the site. It is anticipated that this will be utilised in the forthcoming financial year.

Employee benefits and reorganisation costs include restructuring throughout different sections of the business.

Property and other provisions primarily relate to dilapidation costs and contractual obligations in respect of infrastructure. These provisions will be utilised at the expiry of each of the individual leases, which falls greater than 1 year.

18 Share capital

	31 March 2024 £'000	31 March 2023 £'000
Allotted, called up and fully paid		
10,225 (2023: 10,225) ordinary shares of £1 each	10	10

19 Related party disclosures

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

Sales to related parties (all trading):

	Year ended 31 March 2024 £000	**Balance at 31 March 2024 £000**	Year ended 31 March 2023 £000	Balance at 31 March 2023 £000
First Swietelsky Operations & Maintenance	**9,304**	**7**	9,043	449
FSP (2004) Limited	**-**	**-**	-	-
Total sales to related parties	**9,304**	**7**	9,043	449

Purchases from related parties (all trading):

	Year ended 31 March 2024 £000	**Balance at 31 March 2024 £000**	Year ended 31 March 2023 £000	Balance at 31 March 2023 £000
First Swietelsky Operations & Maintenance	**-**	**230**	-	402
FSP (2004) Limited	**19**	**-**	31	31
Total purchases from related parties	**19**	**230**	31	433

20 Pension commitments

Pension costs for defined contribution schemes are as follows:

	31 March 2024	31 March 2023
	£'000	£'000
Defined contribution schemes	457	2,431

Statement of financial position assets and liabilities recognised are as follows:

	31 March 2024	31 March 2023
	£'000	£'000
Retirement benefits – funds in surplus	235,073	255,729
Retirement benefits – funds in deficit	(237,317)	(241,525)
	(2,244)	14,204

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to two defined contribution schemes in the UK in respect of a number of its employees.

The Company also participates in the following defined benefit schemes: Babcock Rail Limited Section of the Railways Pension Scheme (RPS) which is a funded defined benefit pension scheme with benefits based on final pensionable earnings. The scheme was closed to new entrants as at 31 December 2001. The assets of the RPS are held separately from those of the Company in independently administered funds.

The Company is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

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

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

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

20 Pension commitments *(continued)*

Babcock Rail Limited Section of the Railways Pension Scheme
The IAS 19 valuation has been updated at 31 March 2024 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 December 2022. The major assumptions used for the IAS 19 valuation were:

	2024 %	2023 %
Major assumptions		
Rate of increase in pensionable salaries	**0.5%**	0.5%
Rate of increase in pensions	**2.8%**	2.9%
Discount rate	**4.8%**	4.8%
Inflation rate (RPI)	**3.2%**	3.3%
Inflation rate (CPI)	**2.8%**	2.8%
Weighted average duration of cash flows (years)	**13**	13
Total life expectancy for current pensioners aged 65 (years) – male	**85.0**	85.0
Total life expectancy for current pensioners aged 65 (years) – female	**87.3**	87.3
Total life expectancy for future pensioners currently aged 45 (years) – male	**86.0**	86.0
Total life expectancy for future pensioners currently aged 45 (years) – female	**88.5**	88.5

The Company's cash contribution rates payable to the schemes are expected to be as follows:

	RPS
Future service contribution rate	8.88%
Future service cash contributions	£0.3m
Deficit contributions	-
Additional longevity swap payments	-
Expected employer cash costs for 2024/25	£0.3m
Expected salary sacrifice contributions	£0.1m
Expected total employer contributions	£0.4m

The changes to the Babcock Rail Limited statement of financial position at March 2024 and the changes to the Babcock Rail Limited income statement for the year to March 2025, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2024 £'000	**Income statement 2025 £'000**
Initial assumptions	237,317	623
Discount rate assumptions increased by 0.5%	224,447	(739)
Discount rate assumptions decreased by 0.5%	251,188	600
Inflation rate assumptions increased by 0.5%	251,472	693
Inflation rate assumptions decreased by 0.5%	224,503	(626)
Total life expectancy increased by half a year	240,398	150
Total life expectancy decreased by half a year	234,237	(150)
Salary increase assumptions increased by 0.5%	237,317	623
Salary increase assumptions decreased by 0.5%	237,317	623

20 Pension commitments *(continued)*

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2024 were:

Fair value of plan of assets	**2024**	2023
	£'000	£'000
Growth assets		
Equities	**9,750**	10,608
Property funds	**209**	169
High yield bonds/emerging market debt	**-**	
Absolute return and multi-strategy funds	**140,774**	147,971
Low-risk assets		
Bonds	**82,798**	95,517
Matching assets*	**1,542**	1,464
Fair value of assets	**235,073**	**255,729**
Total defined benefit obligations	**237,317**	241,525
Net (liabilities)/assets recognised in the statement of financial position	**(2,244)**	14,204

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

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

	2024	2023
	£'000	£'000
Current service cost	**818**	1,254
Incurred expenses	**357**	469
Total included within operating profit	**1,175**	1,723
Net interest (credit)/cost	**(694)**	1,384
Total included within income statement	**481**	3,107

20 Pension commitments *(continued)*

Amounts recorded in the Group statement of comprehensive income

	2024	2023
	£'000	£'000
Actual return less interest on pension scheme assets	**(21,665)**	(17,122)
Experience gains/(losses) arising on scheme liabilities	**261**	(18,043)
Changes in assumptions on scheme liabilities	**3,002**	101,223
	(18,402)	66,058

Analysis of movement in the Group statement of financial position:

	2024	2023
	£'000	£'000
Fair value of plan assets		
At 1 April	**255,729**	275,911
Interest on assets	**11,999**	7,300
Actuarial gain on assets*	**(21,665)**	(17,122)
Employer contributions	**2,435**	2,493
Employee contributions	**-**	-
Benefits paid	**(13,425)**	(12,853)
At 31 March	**235,073**	**255,729**
Present value of benefit obligations		
At 1 April	**241,525**	327,151
Service cost	**818**	1,254
Incurred expenses	**357**	469
Interest cost	**11,305**	8,684
Employee contributions	**-**	-
Experience (gain)/loss	**(261)**	18,043
Actuarial (gain)/loss – demographics	**(223)**	(3,563)
Actuarial (gain)/loss – financial	**(2,779)**	(97,660)
Benefits paid	**(13,425)**	(12,853)
At 31 March	**237,317**	**241,525**
Net (deficit)/surplus at 31 March	**(2,244)**	**14,204**

Virgin Media Case

The Company is aware of the ongoing 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for the outcome of the case to have an impact on the Company's pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation under Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the judge ruled that alterations to the scheme rules were void and ineffective because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case has been taken to The Court of Appeal, with the hearing having taken place in June 2024. The potential impact on the Company is not yet known and continues to be assessed.

21 Subsidiary, and associate and Joint Venture undertakings

All related undertakings for the Company are as listed below:

Company Name	Country	Address	Interest	Direct %
FSP (2004) Limited	United Kingdom	8 Stephenson Place, Hamilton International Technology Park, Blantyre, Scotland, G72 0LH	50 Ordinary shares	50.0%
ABC Electrification Limited	United Kingdom	8th Floor, The Place, London, WC1V 7AA	6,530,600 Ordinary B shares	33.3%

22 Contingent liabilities

At the year-end date, the Company has guaranteed or has joint and several liability for bank overdraft facilities that are shared across multiple Group companies with Overdrawn balance of £8.3m at 31 March 2024 (31 March 2023: Utilisation of £21.0m).

Following an internal review, a number of potential errors have been identified in relation to supplier payments falling within the scope of the Construction Industry Scheme (CIS) and Domestic Reverse Charge (DRC) VAT legislation. These supplies should have been subject, in some cases, to withholding taxes under the CIS and/or DRC schemes, but the appropriate amounts have not been deducted for remittance to HMRC. The company is seeking to mitigate its liability in respect of these deductions as far as possible via a number of remedial options. Remedial actions may result in a possible obligation substantially lower in value than the maximum possible gross liability, and potentially even no outflow of economic resource. Interest may be charged on any potential residual liability, but the likely value of this is uncertain. In addition, the company may be subject to a penalty from HMRC, the value of which is uncertain, but is expected to fall between 0% and 30% of the CIS and/or VAT amounts payable.

23 Post balance sheet events

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

24 Immediate and ultimate parent undertakings

The Company's immediate parent company is Babcock Support Services (Investments) Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

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

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