Babcock Rail Limited

Annual report and financial statements

For the year ended 31 March 2022

Registered Number:
02999826

Company Information

Directors

S J Bell
S Doherty
D G Hall
M Hayward

Company secretary

Babcock Corporate Secretaries Limited

Registered number

02999826

Registered office

33 Wigmore Street
London
W1U 1QX

Independent Auditors

Deloitte LLP
1 New Street Square
London
EC4A 4HQ

Babcock Rail Limited

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The Directors present their Strategic report on the Company for the year ended 31 March 2022.

Principal activities

The Company is engaged principally in 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.

Review of the business

	2022	2021
	£'000	£'000
Revenue	**145,848**	116,340
Loss for the financial year	**(235)**	(7,782)
Net Assets	**74,796**	27,664

The underlying operations had a successful year increasing revenues from £116.3m to £145.8m, primarily across its Rail Systems Alliance Scotland contract and its Track and Signalling and Telecommunications frameworks with Translink, with the associated operational profits flowing to the bottom line. The Directors see this positive trend continuing into year ended 31 March 2023.

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 significantly on prior years from £23m to £43m in FY22 as programmes increasingly progress from design phase to build.

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.

However, exceptional costs of £9.2m occurred in the year, generating an Operating Loss. These mainly related to the impairment of assets.

Principal risk and uncertainties

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

Principal risk 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.

Climate action is a key focus: we are continuing to progress our Group-wide decarbonisation programme (Plan Zero 40). Aligned with the Plan Zero 40 pathway announced last year, we commenced baselining our carbon footprint and are on track to submit carbon reduction targets to the Science-Based Targets initiative by April 2023. These are to be achieved by 2030 and will set us on course for decarbonising our estate, assets and operations to reach our overarching goal of net zero emissions by 2040. Further information is included on page 54 of the annual report of Babcock International Group Plc. which does not form part of this report.

Further discussion of these risks and uncertainties, in the context of the Group as a whole and including the impact of COVID-19 is provided on pages 74 to 87 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The Company's activities are managed on a divisional basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company. The Company reviews the performance of the business from a financial, safety and operational perspective on a monthly basis through reporting to a senior management review where the above information is presented. The growth and performance of Land, a sector of Babcock International Group PLC, which includes the Company, is discussed on pages 46 to 47 of the annual report of Babcock International Group Plc, which does not form part of this report.

S172(1) statement and stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 52, 53, and 101 of the annual report of Babcock International group PLC, which does not form part of this report.

Employees

Our success is led by our employees. We continue to strengthen our employee value proposition by enhancing our engagement and promoting an agile global workplace. We are committed to creating an inclusive and diverse organisation where employees can develop their full potential. We focus on developing and supporting a truly engaged workforce, living our principles and working on shared goals, united by our common Purpose.

These engagement activities form part of the Group-wide People Strategy as described on pages 19 and 63 – 66 of the annual report of Babcock International group PLC.

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.

To support our global business operations and strategy we require an efficient and highly effective supply chain. This means we need to foster trusted and collaborative relationships with suppliers who share our appetite to drive improvement through innovation and best practice. Our external supply chains are an important part of our performance and by working collaboratively with suppliers we can ensure continuity of supply, minimise risk and bring innovative solutions to our customers. These engagement activities form part of the Group-wide Procurement Strategy as described on pages 21 and 69 – 72 of the annual report of Babcock International group PLC.

The community and environment

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

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

These activities form part of the Group-wide ESG Strategy as described on pages 54 – 75 of the annual report of Babcock International group PLC.

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

This report was approved by the board on 22nd August 2023 and signed on its behalf

D G Hall
Director

The Directors present their report and the audited financial statements of the Company, for the year ended 31 March 2022.

Dividends

The Directors have not declared a dividend for the year ended 31 March 2022 (2021: £nil).

Directors and their interests

The Directors of the Company who held office during the year and up to the date of signing the financial statements were as follows:

S J Bell
S Doherty (appointed 31 May 2022)
D G Hall (appointed 9 January 2023)
M Hayward
J R Parker (resigned 9 January 2023)
C M Deuchars (resigned 30 June 2022)
I S Urquhart (resigned 31 May 2022)

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

Going concern

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

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £36,745,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock Holdings Limited to provide such finance.

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

Financial risk management

The applicable financial risk management policies and exposure to financial risks including price, credit, liquidity and cash flows are discuss in detail with the annual report for Babcock International Group Plc.

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

Employment of disabled persons (continued)

continues, and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Employee involvement

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

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company. The particular challenges of the COVID 19 pandemic were tackled very effectively, with strong risk based controls effectively implemented. This was supported by excellent consultation and engagement with staff, customers and our key suppliers and partners.

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 2022 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 6.

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 64 and 107 of the annual report for Babcock International Group Plc.

Engagement with UK employees has been considered on page 6 of the Strategic Report.

Environment

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

Qualifying third party indemnity provisions

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

Post balance sheet events

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

Statement of disclosure of information to auditors

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

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

Appointment of auditors

At the 2022 Annual General meeting of Babcock International Group plc, the Company's ultimate parent Company, Deloitte LLP were reappointed as external auditor to the group. Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed to the Company and Deloitte LLP will, therefore, continue in office.

This report was approved by the board on 22nd August 2023 and signed on its behalf

D G Hall
Director

Statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of 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 2022 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 balance sheet;
- the statement of changes in equity;
- the related notes 1 to 25

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

BASIS FOR OPINION

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

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

CONCLUSIONS RELATING TO GOING CONCERN

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

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

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

OTHER INFORMATION

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not

OTHER INFORMATION (CONTINUED)

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.

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

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.

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

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

We discussed among the audit engagement team and relevant internal specialists 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

- o 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;
- o 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;
- o Analysing historical contract performance and understanding the reason for in-year movements or changes;
- o 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;
- o Examining external correspondence to assess the timeframe for delivery of the product or service and any judgements made in respect of these;
- o 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;
- o Enquiring with in-house and external legal counsel regarding contract related litigation and claims; and
- o Considering whether there were any indicators of management override of controls or bias in arriving at their reported position.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through

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)

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.

Makhan Chahal ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
23 August 2023

Income Statement and Statement of Comprehensive Income

Income statement
for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Revenue	4	**145,848**	116,340
Cost of revenue		**(128,370)**	(103,897)
Gross profit		**17,478**	12,443
Administrative expenses		**(10,577)**	(9,524)
Operating profit before exceptional items		**6,901**	2,919
Exceptional loss	9	**(7,074)**	(6,303)
Operating loss	5	**(173)**	(3,384)
Share of operating profit/(loss) in joint ventures	15	**12**	(2,702)
Loss before interest and taxation		**(161)**	(6,086)
Finance income	6	**1,938**	1,811
Finance costs	6	**(462)**	(642)
Other finance costs – pensions	24	**(2,082)**	(1,336)
Loss before taxation		**(767)**	(6,253)
Income tax benefit/(expense)	11	**532**	(1,529)
Loss for the financial year		**(235)**	(7,782)

The notes on pages 21 to 53 form part of these financial statements.
All of the above derive from continuing operations

Statement of comprehensive Income
for the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
Loss for the financial year		**(235)**	(7,782)
Other comprehensive income/(expense):			
Items that will not be subsequently reclassified to income statement:			
Actuarial gain/(loss) recognised on the pension scheme	24	**54,682**	(46,695)
Movement in deferred tax relating to pension liability	11&20	**(7,315)**	8,873
Total comprehensive income/(loss) for the year		**47,132**	(45,604)

Statement of financial position

as at 31 March 2022

	Note	**2022 £'000**	Restated 2021 £'000
Non-current assets			
Intangible assets	12	**-**	7,236
Property, plant and equipment	13	**911**	866
Right of use assets	14	**3,672**	2,246
Investments in joint ventures	15	**172**	165
Trade and other receivables	16	**165,410**	164,257
		170,165	174,770
Current assets			
Trade and other receivables	16	**5,518**	6,757
Contract assets	16	**4,314**	1,965
Deferred taxation	16	**13,329**	20,112
Cash and cash equivalents		**17,027**	22,074
		40,188	50,908
Current liabilities			
Lease liabilities	14	**(1,649)**	(4,072)
Trade and other payables	17	**(75,284)**	(84,082)
Net current liabilities		**(36,745)**	(37,246)
Total assets less current liabilities		**133,420**	137,524
Non Current liabilities			
Lease liabilities	14	**(2,783)**	(5,135)
Provisions for liabilities	19	**(4,601)**	(747)
Retirement benefit deficits	24	**(51,240)**	(103,978)
Net assets		**74,796**	27,664
Equity			
Called up share capital	21	**10**	10
Share premium account		**88,950**	88,950
Revaluation reserve		**18**	18
Capital redemption reserve		**898**	898
Accumulated losses		**(15,080)**	(62,212)
Total shareholders' funds		**74,796**	27,664

Statement of financial position (continued)

The notes on pages 21 to 53 form part of these financial statements.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The financial statements of Babcock Rail Limited, Registered number 02999826, on pages 17 to 53 were approved by the board of Directors on 22nd August 2023 and signed on its behalf by:

D G Hall
Director

Statement of changes in equity

for the year ended 31 March 2022

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Accumulated gains/(losses) £'000	Total shareholders' funds £'000
At 1 April 2021	10	88,950	898	18	(62,212)	27,664
Loss for the financial year	-	-	-	-	(235)	(235)
Actuarial gain on pension scheme	-	-	-	-	54,682	54,682
Movement in deferred tax relating to pension scheme	-	-	-	-	(7,315)	(7,315)
At 31 March 2022	**10**	**88,950**	**898**	**18**	**(15,080)**	**74,796**

	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Revaluation reserve £'000	Accumulated gains/(losses) £'000	Total shareholders' funds £'000
At 1 April 2020	10	88,950	898	18	(16,608)	73,268
Loss for the financial year	-	-	-	-	(7,782)	(7,782)
Actuarial loss on pension scheme	-	-	-	-	(46,695)	(46,695)
Movement in deferred tax relating to pension scheme	-	-	-	-	8,873	8,873
At 31 March 2021	10	88,950	898	18	(62,212)	27,664

1 General information

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

Its ultimate controlling party is disclosed in note 25. The principal activity of the Company is set out in the Strategic Report on page 4. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of significant accounting policies

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

Basis of preparation

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

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'.
b) 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 significant 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 Company is exempt under Section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it is included by full consolidation in the consolidated financial statements of its ultimate parent, Babcock International Group Plc, a Company registered in England and Wales. Accordingly, these financial statements present information about the Company as an individual and not as a group.

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

Adoption of new and revised standards

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

- Interest Rate Benchmark Reform, Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. Adopting these amendments enables the Group to reflect the effects of transitioning from interbank offered rates to alternative benchmark interest rates without giving rise to accounting impacts that would not provide useful information to users of financial statements.

Going concern

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

2 Summary of significant accounting policies *(continued)*

Going concern *(continued)*

As the Company is part of a larger group it participates in the group's centralised treasury arrangements and so shares banking arrangements with it parents and fellow subsidiaries. The Company is in a net current liabilities position of £36,745,000 but is not expected to settle the intercompany amounts due to parent and group undertakings until the Company has sufficient liquidity to do so and the Company has received confirmation from the other group companies these amounts are due to confirming this position. Additionally, the Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue and the Company has received a letter of support from Babcock Holdings Limited confirming this position. In completing this analysis, the Directors have considered the ability of Babcock Holdings Limited to provide such finance.

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

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 business. Revenue is recognised in line with IFRS 15, Revenue from Contracts with Customers. IFRS 15 requires the identification of performance obligations in contracts, allocation of the contract price to the performance obligations and recognition of revenue as performance obligations are satisfied.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(a) Performance obligations

Contracts are assessed to identify each promise to transfer either a distinct good or service or a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations 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. The integrated output nature of many of the goods and services provided by the Company can result in contracts with one performance obligation.

(b) Determination of contract price

The contract price represents the amount of consideration which the Company expects to receive in exchange for delivering the promised goods or services to the customer. Variable consideration is included in the contract price on the most likely outcome basis but only to the extent that it is highly probable that it will not reverse in the future.

(c) Allocation of contract price to performance obligations

Given the bespoke nature of many of the goods and services the Company provides, stand-alone selling prices are generally not available and, in these circumstances, the Company allocates the contract price to performance obligations based on cost plus margin, in accordance with the Group's pricing principles. The Company's contracts typically do not include significant financial components.

(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.

Most of the Company's contracts meet the requirements to satisfy performance obligations and recognise revenue over time either because 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.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

Where the Company satisfies performance obligations over time, revenue is recognised using costs incurred as a proportion of total estimated costs to assess stage of completion, but with the stage of completion and revenue assessed in relation to each performance obligation. In some circumstances the Company also uses an output based earned value approach, as an indicator, to validate the cost based input approach and this approach uses suitably qualified and experienced Company personnel to assess the stage of completion of performance obligations.

Revenue recognised at a point in time
If a performance obligation is not satisfied 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 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 by suitably qualified and experienced Group personnel and the assessments of all significant contracts are subject to review and challenge by local management, sector management and Group management.

Assessment of outcomes is in relation to separate performance obligations and includes variable consideration, which can include judgements on variations and claims, measured using the most likely outcome approach, to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised. Any expected loss on a contract is recognised immediately in the income statement.

The Company operates in a partnering environment with some customers and certain contracts include pain/gain share arrangements under which cost under/over spends against the contract target cost are shared with the customer. These contract sharing arrangements are included in the assessment of contract outturns.

The Company presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. The Company presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

(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.

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

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

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

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

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

The Company recognises contract variations, which impact both scope and price, when they are approved in accordance with IFRS 15. The Company's preferred approach is to approve contract modifications by formal contract amendment. However, the approval of contract modifications often requires to be carried out at pace and other mechanisms, informed by established customer relationships and local working arrangements, can be used to achieve approval of contract modifications. In approving contract modifications in these circumstances, the Company considers the scope of the contract modification in the context of the contract scope and contract terms.

Contract variations where the formal contract amendment has not been received but which are, in management's judgement, approved are accounted for as a contract modification in accordance with IFRS 15 paragraph 18. Revenue from these contract variations is treated as variable consideration and subject to constraint as outlined in section (b) above, until the pricing is agreed.

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

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

(f) Costs of obtaining a contract

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

2 Summary of significant accounting policies *(continued)*

Revenue *(continued)*

(g) Costs to fulfil a contract

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

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

Costs of recruiting or training staff are expensed as incurred.

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

(h) Contract assets and liabilities

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.
Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Exceptional items

Items that are exceptional in size or nature are presented as exceptional items within the income statement. The separate reporting of exceptional items helps provide a better indication of the business’s underlying business performance. Events which may give rise to the classification of items as exceptional include gains or losses on the disposal of businesses, material acquisition costs along with the restructuring of businesses and asset impairments.

2 Summary of significant accounting policies *(continued)*

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are 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.
Annual impairment reviews are performed as outlined in note 12.
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 are 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.

Investments

Fixed asset investments are stated at cost less provision for impairment in value.

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

Leases

The Company as lessee

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

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

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

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

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

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

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.

2 Summary of significant accounting policies *(continued)*

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 22 for details of contingent liabilities.

Cash and cash equivalents

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

Taxation

(a) Current income tax

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

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

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

(b) Deferred income tax

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

2 Summary of significant accounting policies *(continued)*

Taxation *(continued)*

(b) Deferred income tax *(continued)*

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

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

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

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 the entities who participate in the scheme. 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.

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

2 Summary of significant accounting policies *(continued)*

Employee benefits *(continued)*

a) Pension obligations *(continued)*

Defined benefit scheme *(continued)*

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.

Defined contribution scheme

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

b) Share based compensation

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

c) Holiday pay

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

Financial instruments

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

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 of the derivative instruments within its portfolio to be hedges of the fair value of recognised assets or liabilities or unrecognised firm commitments.

2 Summary of significant accounting policies *(continued)*

Financial instruments *(continued)*

b) Derivative financial instruments *(continued)*

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

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

Fair value measurement

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

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

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

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

Dividends

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

Foreign currencies

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local 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 balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2 Summary of significant accounting policies *(continued)*

Provisions for liabilities

A provision is recognised in the balance sheet 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 has been 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. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

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

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

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

Identification of prior year restatements

The results of the Company have been restated where practicable by retrospectively restating the Company's prior period results for the affected periods.

3 Critical accounting estimates and judgements

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

Critical accounting judgements

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

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.

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.

Defined benefit pension scheme
The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 24 for the disclosures of the defined benefit pension scheme.

4 Revenue

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

	2022 £'000	2021 £'000
Provision of services – transferred over time	**145,848**	116,340
	145,848	116,340

All the revenue in the year ending 31 March 2022 originated in the United Kingdom.

5 Operating loss

Operating loss is stated after charging:

	2022 £'000	2021 £'000
Depreciation on property, plant and equipment (note 13)	**184**	109
Right of use depreciation (note 14)	**2,192**	2,995
Audit fees payable to the Company's auditors	**100**	69

The auditors' remuneration for the current year (£100,000) and prior year (£69,000) has been borne by a fellow group Company. Fees paid to the Company's auditors, Deloitte LLP and its associates (2022), PricewaterhouseCoopers LLP and its associates (2021) are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group Plc

6 Finance income and costs

	2022 £'000	2021 £'000
Finance income:		
Loan interest receivable from group undertakings	**1,938**	1,811
Finance costs:		
Bank interest	**(7)**	(52)
Lease interest	**(253)**	(437)
Loan interest payable to group undertakings	**(191)**	(153)
Share of joint venture interest	**(11)**	(-)
	(462)	(642)

7 Staff costs

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

	2022 Number	2021 Number
Operations	**359**	358
Management and administration	**341**	347
	700	705

Their aggregate remuneration comprised:

	2022 £'000	2021 £'000
Wages and salaries	**38,917**	37,467
Social security costs	**4,234**	4,456
Other pension costs	**5,646**	4,982
	48,797	46,905

Included in other pension costs are £3,600,000 (2021: £2,707,000) in respect of the defined benefit schemes and £2,046,000 (2021: £2,005,000) in respect of the defined contribution scheme.

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

8 Directors' emoluments

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

	2022	2021
	£'000	£'000
Remuneration (including benefits in-kind)	**309**	428
Defined contribution pension scheme	**9**	34
Compensation for loss of office	**-**	557
	318	1,019

During the year no (2021: none) Directors remunerated by Babcock Rail Limited exercised share options under long term incentive plans and three (2021: three) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to nil Directors (2021: one) under defined benefit pension schemes.
Except for two (2021: four) Directors, all of the Directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these Directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these Directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the Directors in relation to other Babcock Group companies.

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

	2022	2021
	£'000	£'000
Emoluments (excluding pension contributions)	**174**	95
Company pension contributions (in place of accrued benefit entitlement under the group's defined contribution scheme)	**1**	9
Defined benefit pension scheme:		
- Accrued pension at the end of the year	**-**	-
- Accrued lump sum at the end of the year	**-**	-
Compensation for loss of office	**-**	473

No Director exercised shares under long term incentive plans.

9 Exceptional Costs

	2022 **£'000**	2021 £'000
Impairment of Goodwill (note 12)	**(7,236)**	-
Impairment provision (note 19)	**(2,183)**	-
Onerous lease release	**1,746**	-
Refund of JV costs	**507**	-
Write down system upgrade project costs	**250**	(2,145)
Other restructuring costs	**(158)**	(4,158)
	(7,074)	(6,303)

Exceptional items are those items which are exceptional in nature or size.

In the financial year the business, after a review of its property leases decided to exit one of the properties at the end of its lease in March 2022. This led to re-occupying a property that the business had an existing lease, but that an onerous lease provision had been created in a prior year against the future costs. The consequence was that the remaining onerous lease provision has been released back to P&L in the financial year as the business is now occupying and realising benefit from the property.

In the year ended 31 March 2021 a provision was taken against the recoverability of costs that had been incurred on behalf of ABC (Electrification) Ltd, due to an assessment of ongoing contractual disputes that it had with a customer. In the year ended 31 March 2022, the disputes were resolved and Babcock Rail was able to recover some of the previously written off items from ABC (Electrification) Ltd.

In the year ended 31 March 2021 a write down of system upgrade costs was taken for £2,145k. This included estimates of costs that had been incurred. In the financial year to 31 March 2022 these estimates were revised and a credit of £250k was realised.

Restructuring costs of £158k were provided for in relation to reorganisation of the business and employee redundancy.

10 Share based payments

The charge to the income statement has been based on the assumptions below and is based on the binomial model as adjusted, allowing for a closed form numerical-integrated solution, which makes it analogous to the Monte Carlo simulations, including performance conditions. The detailed description of the plans below is included within the Remuneration report.

During the year the total charge relating to employee share-based payment plans was £nil (2021: £nil), all of which related to equity-settled share-based payment transactions. After tax, the income statement charge was £nil (2021: £nil).

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

DBMP, PSPS AND DBP[1]

	Options awarded Number	Share price at grant or modification date Pence	Expected volatility %	Option life Years	Expectations of meeting performance criteria – EPS/ROCE %	Fair value per option – TSR Pence	Fair value per option – EPS/ROCE Pence	Correlation %	Grant or modification date
2021 PSP	769,165	371.6	19.0%	6.0	100.0%	148.6	315.9	55.0%	24/08/21
2021 PSP	626,704	380.2	19.0%	6.0	100.0%	–	325.0	55.0%	24/09/21
2021 PSP	1,780,849	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2021 DBP	45,312	380.2	19.0%	4.0	100.0%	–	380.2	55.0%	24/09/21
2020 PSP	695,458	350.0	19.0%	6.0	100.0%	–	305.2	55.0%	01/12/20
2020 PSP	2,091,247	350.0	19.0%	4.0	100.0%	–	350.0	55.0%	01/12/20
2020 PSP	1,341,477	350.0	19.0%	6.0	100.0%	137.9	305.2	55.0%	01/12/20
2020 DBP	118,320	289.0	19.0%	4.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	146,306	289.0	19.0%	3.0	100.0%	–	289.0	55.0%	03/08/20
2020 DBP	192,096	284.2	19.0%	4.0	100.0%	–	284.2	55.0%	13/08/20
2020 DBP	8,474	284.2	19.0%	3.0	100.0%	–	284.2	55.0%	13/08/20
2019 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/19
2019 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/19
2019 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/19
2019 DBP	93,430	472.8	11.0%	3.0	100.0%	–	472.8	45.0%	13/06/19
2018 PSP	1,370,671	472.8	11.0%	6.0	–	70.9	472.8	45.0%	13/06/18
2018 PSP	3,019,033	472.8	11.0%	4.0	–	70.9	472.8	45.0%	13/06/18
2018 DBP	313,909	472.8	11.0%	4.0	100.0%	–	472.8	45.0%	13/06/18
2018 DBP	90,777	856.0	14.0%	3.0	100.0%	–	856.0	56.0%	13/06/18
2017 PSP	902,424	905.5	15.0%	6.0	–	131.2	905.5	46.0%	14/06/17
2017 PSP	1,769,338	905.5	15.0%	4.0	–	131.2	905.5	46.0%	14/06/17
2017 DBP	186,949	905.5	15.0%	4.0	100.0%	–	905.5	46.0%	14/06/17

1. DBMP = 2012 Deferred Bonus Matching Plan, PSP = 2009 Performance Share Plan and DBP = 2012 Deferred Bonus Plan.

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

PSP awards for 2017 to 2019 are split evenly between the performance criteria of TSR, EPS and ROCE.

For PSP awards made in December 2020, 2,786,705 were made via the use of restricted shares with a three-year vesting period. There are no performance conditions attached. A further 1,341,477 awards were made where the performance criteria is 50% against free cash flow and 50% TSR.

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

Notes to the Financial Statements (continued)

10 Share based payments *(continued)*

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

There are no performance conditions attached to the DBP.

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

The Group also operates the Babcock Employee Share Plan which allows employees to contribute up to £150 per month to the fund, which then purchases shares on the open market on the employees' behalf. The Group provides matching shares, purchased on the open market, of one share for every 10 purchased by the employee. During the year the Group bought 159,494 matching shares (2021: 180,175 matching shares) at a cost of £0.5 million (2021: £0.5 million).

The Group also operates the Babcock Employee Share Plan International which reflects the structure of the UK Plan. During the year 4,784 matching shares were purchased on the open market (2021: 5,000 matching shares) and 2,823 matching shares vested (2021: 1,193 matching shares) leaving a balance of 6,973 matching shares (2021: 5,012 matching shares).

11 Tax

Income tax credit

	2022 £'000	2021 £'000
Current tax:		
UK Corporation tax on profit/loss of the year	**-**	-
Total Current tax charge for the year	**-**	-
Deferred tax:		
Origination and reversal of temporary differences	**84**	(203)
Adjustments in respect of deferred tax for prior years	**(491)**	1,732
Impact of change in UK tax rate	**(125)**	-
Total deferred tax (credit)/charge	**(532)**	1,529
Total tax on profit/loss	**(532)**	1,529
Tax (income)/expense included in other comprehensive income:		
Current tax	**-**	-
Tax impact of actuarial losses/(gains) on pension liability	**(10,390)**	8,873
Impact of change in UK tax rate	**3,075**	-
Total tax expense /(income) included in other comprehensive income	**(7,315)**	8,873

11 Tax *(continued)*

Income tax credit *(continued)*

The tax assessed for the year is lower than (2021: lower) the standard rate of corporation tax in the UK for the year ended 31 March 2022 of 19% (2021: 19%). The differences are explained below:

	2022 £'000	2021 £'000
Loss before taxation	**(767)**	(6,253)
Tax on loss at standard UK corporation tax rate of 19% (2021: 19%)	**(146)**	(1,188)
Effects of:		
Expenses not deductible/(Income not taxable) for tax purposes	**1,824**	(260)
Group relief claimed for nil consideration	**(1,594)**	-
Deferred tax asset on losses not recognised	**-**	1,245
Adjustments in respect of deferred tax for previous years	**(491)**	1,732
Impact of change in UK tax rate	**(125)**	-
Total tax (benefit)/expense for the year	**(532)**	1,529

In the 2020 budget, it was announced that the decrease in the UK rate of corporation tax from 19% to 17% was cancelled. On 24 May 2021, the Finance Act 2021 was substantively enacted, increasing the main rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. As the increase of the rate to 25% had not been substantively enacted at the Balance Sheet date, its effects are not included in these Financial Statements.

12 Intangible assets

	£'000
Cost	
At 1 April 2021 and **at 31 March 2022**	**13,600**
Accumulated amortisation	
At 1 April 2021	**6,364**
Impairment	**7,236**
At 31 March 2022	**13,600**
Net book value	
At 31 March 2022	**-**
At 1 April 2021	**7,236**

12 Intangible assets *(continued)*

The goodwill arose on the acquisition of the trade and assets of First Projects Limited. During the year, goodwill was tested for impairment at 31 March 2022 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 an impairment of the goodwill recognised by the business of £7.2 million, this impairment reflects changes in the future business performance. This has also resulted in an acquired intangible impairment of £2.2 million.

13 Property, plant and equipment

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2021	2,291	8,289	10,580
Additions in year	223	6	229
At 31 March 2022	**2,514**	**8,295**	**10,809**
Accumulated depreciation			
At 1 April 2021	1,542	8,172	9,714
Charge for the year	169	15	184
At 31 March 2022	**1,711**	**8,187**	**9,898**
Net book value			
At 31 March 2022	**803**	**108**	**911**
At 31 March 2021	749	117	866

14 Leases

Right of use assets

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2021	11,880	3,528	15,408
Additions in year	203	-	203
Terminations	(5,311)	(749)	(6,060)
At 31 March 2022	**6,772**	**2,779**	**9,551**
Accumulated depreciation			
At 1 April 2021	11,799	1,363	13,162
Charge for the year	1,355	837	2,192
Terminations	(8,726)	(749)	(9,475)
At 31 March 2022	**4,428**	**1,451**	**15,879**
Net book value			
At 31 March 2022	**2,344**	**1,328**	**3,672**
At 31 March 2021	81	2,165	2,246

Lease liabilities

The entity leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases.

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

	2022 £'000	2021 £'000
At 31 March	**9,207**	9,910
Additions	**203**	2,443
Disposals	**(2,493)**	(513)
Interest charged	**253**	351
Payments	**(2,738)**	(2,984)
At 31 March	**4,432**	9,207

Discounted future minimum lease payments are as follows:

	2022 £'000	2021 £'000
Within one year	**1,649**	4,072
In more than one year, but not more than five years	**2,783**	5,135
Carrying value of liability	**4,432**	9,207

15 Investments

	2022 £'000	2021 £'000
At 1 April	**165**	165
Share of profit/(loss)	**12**	(2,702)
Provision for future losses	**(5)**	2,702
At 31 March	**172**	165

The joint ventures of the Company at 31 March 2022 are shown below, all shares are held directly.

Company name	Country	Address	Interest	Direct %
FSP (2004) Limited	UK	33 Wigmore Street, London, W1U 1QX	50 Ordinary shares	50.0%
ABC Electricifcation Limited	UK	8th Floor, The Place, High Holborn, London, WC1V 7AA	6,530,600 Ordinary B shares	33.3%

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

16 Trade and other receivables

	2022 £'000	Restated 2021 £'000
Amounts falling due after more than one year:		
Amounts owed by parent and group undertakings	**165,410**	164,257
Amounts falling due within one year:		
Trade receivables	**2,672**	2,920
Amounts owed by parent and group undertakings	**360**	2,215
Contract assets	**4,314**	1,965
Amounts owed by joint venture	**1,350**	-
Deferred tax asset (note 20)	**13,329**	20,112
Other debtors	**101**	359
Prepayments and accrued income	**1,035**	1,263
Total	**23,161**	28,834

The amounts due from group undertakings are unsecured and repayable on demand.

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

There are ten major loans (2021: ten) due from group companies:

- A loan of £15,000,000 (2021: £15,000,000) is repayable on demand, the interest rate is 6 months LIBOR plus 4%.
- Four loans (2021: four) totalling £95,000,000 (2021: £95,000,000) are repayable on demand, the interest rate is 6 month LIBOR plus 1%.
- Five loans (2021: five) totalling £39,155,000 (2021: £39,155,000) are repayable on demand, with no interest charge.

Contract assets

	£'000
At 1 April 2021	1,965
Transfers from contract assets recognised at the beginning of the year to receivables	(1,965)
Increase due to work done not transferred from contract assets	4,314
At 31 March 2022	**4,314**

	£'000
At 1 April 2020	5,224
Transfers from contract assets recognised at the beginning of the year to receivables	(5,224)
Increase due to work done not transferred from contract assets	1,965
At 31 March 2021	**1,965**

17 Trade and other payables

	2022 £'000	Restated 2021 £'000
Amounts falling due within one year:		
Trade creditors	**613**	8,460
Amounts owed to group undertakings	**45,107**	45,544
Amounts owed to joint ventures	**-**	2,829
Taxation and social security	**6,252**	11,517
Other payables	**1,700**	1,570
Contract liabilities	**15,912**	8,462
Debenture loan stock	**5,700**	5,700
	75,284	84,082

In the year ended 31 March 2022, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The amounts due to group undertakings are unsecured and repayable on demand.

There are five major loans (2021: five) due to group companies:

- Two loans (2021: two) totalling £13,000,000 (2021: £13,000,000) are repayable on demand, the interest rate is 6 month LIBOR plus 1%.

- Three loans (2021: three) of £18,223,940 (2021: £18,223,940) are repayable on demand, with no interest charge.

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 Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 23).

Contract liabilities

	Total £'000
At 1 April 2021	8,462
Amounts accrued	15,912
Amount utilised	(8,462)
At 31 March 2022	**15,912**

	Total £'000
At 1 April 2020	7,387
Amounts accrued	8,462
Amount utilised	(7,387)
At 31 March 2021	**8,462**

18 Prior year restatements

In the year ended 31 March 2022, the Group Company restated the prior year financial information. The restatements are summarised below:

31 March 2021 – Statement of financial position (extract)

	31 March 2021 (previously published) £'000	Gross up intercompany payable £'000	Reclassification to Long Term of intercompany loans receivable £'000	31 March 2021 (restated) £'000
Assets				
Non-current assets				
Trade and other receivables	-	-	164,257	164,257
Total non-current assets	10,513	-	164,257	174,770
Current assets				
Trade and other receivables	190,650	2,441	(164,257)	28,834
Total current assets	212,724	2,441	(164,257)	50,908
Current liabilities				
Trade and other payables	(81,641)	(2,441)	-	(84,082)
Net current assets/(liabilities)	127,011	-	(164,257)	(37,246)

The table above includes only those financial statement line items which have been restated. The total non-current assets, current assets and net current assets/(liabilities) do not therefore represent the sum of the line items presented above.

Reclassification of intercompany loans

In the prior year, intercompany amounts due from Group were presented as falling due within one year and classified within current assets. Based on the underlying terms of the agreement and, considering the fact that these assets are not expected to be settled within the next twelve months, the classification has been reassessed, and the amounts due from Group presented within non-current assets.

Also in the prior year, an intercompany amount due to one Group company was presented as a reduction of aggregate intercompany amounts due from Group within current assets. This has been corrected and moved to present within current liabilities.

The balance sheet and applicable notes in the comparative period have been restated accordingly.

19 Provisions for liabilities

	Dilapidations provisions £'000	Impairment £'000	Redundancy provisions £'000	Total £'000
At 1 April 2021	-	-	747	747
Charged to the Income Statement	1,243	2,183	591	4,017
Utilised during the year	-	-	(163)	(163)
At 31 March 2022	**1,243**	**2,183**	**1,175**	**4,601**

The dilapidations reserve relates to property leases.

The redundancy provision relates to restructuring throughout different sections of the business. The majority of this provision is expected to be utilised over the next financial year, with the remainder being completed by March 2024 on completion of business restructuring.

20 Deferred taxation

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

	Accelerated capital allowances £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 April 2020	283	10,655	1,832	12,770
(Charged)/credited to income statement	(747)	229	(1,011)	(1,529)
Credited to other comprehensive income	-	8,873	-	8,873
At 31 March 2021 and at 1 April 2021	(464)	19,757	821	20,114
Credited/(charged) to income statement	586	369	(423)	532
(Charged) to other comprehensive income	-	(7,315)	-	(7,315)
At 31 March 2022	**122**	**12,811**	**398**	**13,330**

21 Called up share capital

	2022 £'000	2021 £'000
Allotted and fully paid		
10,225 ordinary shares of £1 each (2021: 10,225)	**10**	10

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 utilisation of £383.6m at 31 March 2022 (31 March 2021: £371.3m).

23 Related party disclosures

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

The Company has an interest in the following joint Ventures. Transactions occur with these joint ventures in the normal course of business.

The Company sold goods to First Swietelsky Operations and Maintenance for £9,090,000 (2021 - £8,676,000). The amount outstanding at year end was £537,000 (2021 - £781,000). In addition, the Company has a balance due to First Swietelsky Operations and Maintenance of £1,524,000 (2021 - £420,000).

The Company has a balance of £1,350,000 (2021 - £nil) due from ABC Electrification Limited.

The Company purchased goods from FSP (2004) Limited for £31,000 (2021 - £27,000). The amount outstanding at year end was £nil (2021 - £nil).

24 Pension commitments

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

The Company contributes to two defined contribution schemes in respect of a number of its employees.

The Babcock Rail Limited shared cost section of the Railways Pension Scheme (RPS) 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 IAS 19 valuation has been updated at 31 March 2022 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation of the Babcock Rail Limited Section of the RPS scheme was 31 December 2019.

24 Pension commitments *(continued)*

The major assumptions used for the IAS 19 valuation were:

	31 March 2022	31 March 2021
Rate of increase in pensionable salaries	**0.50%**	2.90%
Rate of increase in pension payment	**3.21%**	2.72%
Discount rate	**2.70%**	2.00%
Inflation assumption	**0.50%**	2.90%

The mortality assumptions used for the actuarial valuation were:

	31 March 2022	31 March 2021
Life expectancy from age 65 (male age 65)	**20.3**	20.9
Life expectancy from age 65 (male age 45)	**21.4**	21.9

The changes to the Company statement of financial position at March 2022 and the changes to the Company income statement for the year to March 2022, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2022 £'000	**Income statement 2022 £'000**
Initial assumptions	**327,151**	**3,198**
Discount rate assumptions increased by 0.5%	**301,379**	**2,533**
Discount rate assumptions decreased by 0.5%	**352,924**	**3,603**
Inflation rate assumptions increased by 0.5%	**351,775**	**3,960**
Inflation rate assumptions decreased by 0.5%	**305,333**	**2,517**
Total life expectancy increased by half a year	**332,876**	**3,385**
Total life expectancy decreased by half a year	**321,426**	**3,011**
Salary increase assumptions increased by 0.5%	**328,755**	**3,306**
Salary increase assumptions decreased by 0.5%	**325,547**	**3,090**

24 Pension commitments *(continued)*

The assets in the scheme and the weighted average expected rates of return:

	31 March 2022	31 March 2021
	£'000	£'000
Equities	**14,348**	12,503
Property	**134**	2,146
Absolute return and multi strategy funds	**182,897**	194,576
Bonds	**77,163**	54,818
Matching assets	**1,369**	1,686
Total market value of assets	**275,911**	265,729
Actuarial value of liabilities	**(327,151)**	(369,707)
Gross pension liability	**(51,240)**	(103,978)

Investments have been valued for this purpose at fair value at the statement of financial position date. Equity investments and bonds are valued at bid price.

Analysis of amount charged to the income statement

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Current service cost	**(2,465)**	(2,676)
Past service cost	**-**	(31)
Total included within operating profit	**(2,465)**	(2,707)
Net interest cost	**(2,082)**	(1,336)
Total charged to the income statement	**(4,547)**	(4,043)

Analysis of amount recognised in the Statement of comprehensive income ("SOCI"):

	Year ended 31 March 2022 £'000	Year ended 31 March 2021 £'000
Actuarial gain/(loss) on liabilities	**27,454**	(72,444)
Experience gain/(loss) on liabilities	**14,164**	(554)
Actuarial gain on assets	**13,064**	26,303
Other gains put through OCI	**-**	-
	54,682	46,695

24 Pension commitments *(continued)*

The equity investments and bonds are valued at bid price.

	2022 £'000	2021 £'000
Reconciliation of present value of scheme liabilities		
At 1 April	**369,707**	297,529
Current service cost	**2,465**	2,676
Interest cost	**7,320**	7,027
Employee contributions	**-**	-
Benefits paid	**(10,723)**	(10,554)
Actuarial loss/(gain)	**(41,618)**	72,998
Past service cost	**-**	31
At 31 March	**327,151**	369,707

	2022 £'000	2021 £'000
Reconciliation of present value of scheme assets		
At 1 April	**265,729**	241,449
Expected return on plan assets	**5,238**	5,691
Actuarial gain/(loss)	**13,064**	26,303
Benefits paid	**(10,723)**	(10,554)
Employer contributions	**2,603**	2,840
Employee contributions	**-**	-
At 31 March	**275,911**	265,729

25 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 company 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 to the public from the following address:

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