Babcock Rail Limited

Annual report and financial statements

for the year ended 31 March 2025

Company registration number:

02999826

Babcock Rail Limited

COMPANY INFORMATION

Directors	S J Bell D G Hall M T Abbott
Company Secretary	Babcock Corporate Secretaries Limited
Registered Number	02999826
Registered Office	33 Wigmore Street London W1U 1QX
Independent Auditor	Forvis Mazars LLP One St Peter’s Square Manchester M2 3DE

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Strategic report for the year ended 31 March 2025

The Directors present their Strategic report on the Company for the year ended 31 March 2025.

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

Business review

	2025	2024
	£'000	£'000 *Restated
Revenue	**116,338**	170,951
Profit for the financial year	**1,255**	12,215
Net Assets	**127,969**	133,635

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The trading for the entity is reflective of underlying market conditions, which have resulted in reductions in revenue associated with transition to a new Control Period, the completion of significant customer projects alongside the transition of Frameworks upon value expiry. As a result revenue has decreased through volumes from £171.0m to £116.3m, primarily across the Track and Signalling and Telecommunications frameworks with Translink, the Rail Systems Alliance Scotland Framework with Network Rail and through the ending of the Medium Signalling Framework in Scotland with the associated operational profits flowing through to the bottom line.

As a consequence of the above the business announced a number of restructure activities within the year, all of which largely completed within the year in question. The entity is now structured around its two primary delivery streams, Rail Systems Alliance Scotland and Rail Systems.

The operating profit has decreased from the prior year with the entity delivering an operating loss in FY25. The operating profit margin percentage (FY25 (4.5%) v FY24 *restated 2.8%), includes unfunded restructure costs reflective of the Mainland Signalling Framework in Scotland ending and the transition of Frameworks against a revised customer funding landscape within the Translink Frameworks and a provision in respect of the previously disclosed contingent liability relating to compliance against the Constructions Industries Scheme (CIS) and Domestic Reverse Charge Legislation.

The Rail Systems Alliance Scotland framework with Network Rail continues to operate well for the Company. Revenue associated with reduced volumes in the year decreased on prior years from £59.2m to £53.8m in FY25. An increase in volume in the domestic workbank; following transition from Control Period 6 (CP6) into Control Period 7 (CP7), has been offset by a reduction in additional projects and Inter Unit Transfer activity by Network Rail in line with the strategic requirements set out within CP7. Delivery in support of Network Rail continues to be strong achieving and exceeding all contracted KPIs. £2.9m of the revenue in FY25 relates to funded restructure costs in support of the transition from CP6 to CP7.

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 decreased on prior years from £80.9m to £44.8m in FY25 as significant programmes progress from build and/or construction to completion. This centred around 2 key infrastructure projects at Belfast Transport Hub and Lisburn, both of which were across the Permanent Way and Signalling & Telecommunications frameworks.

The Medium Signalling Framework in Scotland ended within the year with the business focussing on efficient and effective completion of all contracted works for Network Rail. Volumes have decreased on prior years from £20.4m to £7.2m representing the close out of funding within one framework before transition to a follow-on framework. The framework delivered projects of varying value, including design and feasibility services, level crossing renewals, axle counter upgrades and telecoms system renewals.

Strategic report for the year ended 31 March 2025 *(continued)*

Business review (continued)

The business was unsuccessful in its tender for a follow-on framework (SSPCF) which consolidated three frameworks together (including the CP6 Medium Signalling Framework delivered by Babcock Rail) in the period. Our On-Track-Plant operations continue to successfully deliver through our SB Rail joint venture, maintaining our reputation for 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. The company was successful in its tender for the follow-on 8-year National Plant Contract Framework and maintained all contracted machines with Network Rail throughout FY25 and into FY26.

In support of the Company's strategic objectives and to ensure it is best place to service its targeted growth market during the financial year, Babcock Rail Limited established a legal presence in the Republic of Ireland through an investment in a wholly owned subsidiary; Babcock Rail Ireland Limited (BRIL). This investment represents the company's commitment to establishing and operating a long-term arrangement in a new international market.

Principal risks and uncertainties

The Company's ultimate controlling parent is Babcock International Group PLC. Risks are managed at a group level in accordance with the risk management framework of Babcock International Group PLC. The principal risks and uncertainties of Babcock International Group PLC are discussed in its Annual Report for the year ended 31 March 2025, which does not form part of this report.

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

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.

Risk is considered regularly at Group Board level. As part of its business planning and annual strategy review process, the Group Board conducts a robust assessment of principal and emerging risks. Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 104 to 123 of the annual report of Babcock International Group PLC, which does not form part of this report.

Key performance indicators

The financial and non-financial key performance indicators (KPIs) of Babcock International Group PLC, in the context of the Group as a whole, are provided on pages 26 to 27 of the annual report of Babcock International Group PLC, which does not form part of this report.

Strategic report for the year ended 31 March 2025 *(continued)*

We have identified the following financial and non-financial key performance indicators (KPIs) for the Company that reflect the internal benchmarks we use to measure the success of our business and strategy:

	2025	2024 *Restated	
Revenue Growth	**(31.9%)**	3.4%	The reduction in revenue against prior year represents underlying conditions across the rail industry. Within the Rail Systems Alliance Scotland (RSAS), the strategic focus across Control Period 7 differs to that of Control Period 6 with a reduction in enhancement / project activity and a shift towards life extension, refurbishment and maintenance alongside targeted renewals. FY25 equally represented the first year of CP7, following a trend where the revenue on the contract has historically been lower following transition between control periods. Secondly, a reduction in revenue against the Translink frameworks associated with the completion of significant projects in year, transition between frameworks and a reduction in the annual funding allocated by Translink. Finally, a reduction in revenue against the Mainland Signalling Framework in Scotland, which ended in year and represents close out of exiting projects only.
Operating Return on Revenue (ORR)	**(4.5%)**	2.8%	Reduced return reflective of decreased volumes as detailed above in the business review, unfunded restructure costs, associated with the Mainland Signalling Framework in Scotland ending and the transition of Frameworks against a revised customer funding landscape within the Translink Frameworks and a provision in respect of the previously disclosed contingent liability relating to compliance against the Constructions Industries Scheme (CIS) and Domestic Reverse Charge Legislation.
Order book and frameworks	**£16.7m**	£280.9m	The reduction between FY24 and FY25 represents an alignment of the framework in respect of the Rail Systems Alliance Scotland to represent a zero-value framework to be converted annually at the point of contractual agreement that the Domestic Workbank is agreed with Network Rail. The Orderbook reflects the remaining contracted works against the RSAS and the projects through Rail Systems which were won in 2023 & 2024 and remain to be delivered in the year ended 31 March 2025.
Total injuries rate per 200,000 hours worked	**0.6**	0.7	Health and Safety continued to be a core value for the Company. The data includes all Occupational Safety and Health Administration OSHA reported injuries

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Strategic report for the year ended 31 March 2025 *(continued)*

S172(1) Statement and Stakeholder engagement

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

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

Stakeholder engagement is managed in accordance with Group policies and procedures which are discussed on pages 62 to 63 and 136 to 138 of the annual report of Babcock International Group PLC, which does not form part of this report.

The Directors confirm that they, both individually and collectively, have acted in a way that they consider, in good faith, to be most likely to promote the long-term success of the Company for the benefit of the shareholders as a whole, while having regard for all stakeholders. By considering key stakeholder groups and aligning our activities with our strategic plan, as well as the Company’s culture and values, we aim to act fairly, transparently and in the best interests of the Company over the long term. Stakeholder engagement in relation to key stakeholder groups includes the following:

Customers

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

What matters to them:
- Health and Safety
- Operational excellence
- Affordability and Value for Money
- Integrated solutions
- Innovation
- Collaboration
- Deep understanding of their needs, both now and in the future
- Sustainability performance and agenda

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

Strategic report for the year ended 31 March 2025 *(continued)*

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

Suppliers

Why they matter to us:
Our sustainable growth requires 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 operational improvement through innovation and best practice. These partnerships allow us to ensure continuity of supply, minimise risk and bring integrated solutions to our customers.

What matters to them:
- Collaboration
- Fair treatment and respect
- Transparent communication
- Access to opportunities
- Prompt payment and predictable supplier cash flows

How the Company engages:
- Regular open and honest two-way communications
- Supplier Code of Conduct and Supplier's Guide
- Supplier conferences and workshops
- Supplier due diligence
- Implemented ESG ratings for our suppliers

Regulators

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

What matters to them:
- Regulations, policies and standards
- Governance and transparency
- Trust and ethics
- Safety and compliance of operations
- Site-specific issues
- Sustainability

How the Company engages:
- Regular engagement (local and official level)
- Briefing on key issues
- Dedicated compliance teams
- Response to direct queries
- Co-ordinated safety improvement programmes

Colleagues

Why they matter to us:
Colleague engagement is a primary focus for the Directors of the Company. Our people deserve an environment in which they can thrive – one that requires an unwavering commitment to their health, safety and wellbeing, and a culture where talent is recognised, supported and developed through meaningful action so that everyone can reach their full potential, united by our common Purpose.

Strategic report for the year ended 31 March 2025 *(continued)*

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

What matters to them:
- Fair pay and reward
- Opportunities for career development
- Health, safety and wellbeing
- An empowering, inclusive culture with strong leadership
- Collaboration

How the Company engages:
- Employee forums and meetings
- Internal communication channels, including intranet and weekly senior management vlogs
- Access to the Group CEO & MD via a dedicated email
- Weekly global news round-up videos
- Cascade briefings
- A dedicated onboarding app
- Apprentice and Graduate programmes
- Regular training programmes
- Senior management and board visits
- ‘Safety Starts with Me’ and Safety Stars programmes
- New colleague recognition Ignite Award scheme
- Free confidential employee support helpline

Communities

Why they matter to us:
We seek to work in partnerships with the communities we serve so that we can thrive together. As good corporate citizens, we want to make a genuine difference by supporting our local communities both economically and socially; community engagement and social value creation is a key to our ESG strategy. We aim to work with local suppliers, community groups and charities, through volunteering and STEM outreach.

What matters to them:
- Employment opportunities and economic contribution
- Health, safety and wellbeing
- Engagement in local education and STEM activities
- Sustainability and protection of the local environment
- Support for the armed forces community
- Broad Community engagement

How the Company engages:
- Sponsorship and donations
- Working with local SMEs to support local economies
- Colleague volunteering
- University and skills partnerships
- STEM outreach
- Employer of service leavers, veterans and reserves
- Engagement with and support for local community programmes

Strategic report for the year ended 31 March 2025 *(continued)*

Sustainability and environment

Sustainability is an integral part of our corporate strategy and how we do business and it underpins our corporate Purpose: to create a safe and secure world, together. Since outlining the Group's ESG strategy in 2020 our ambition has grown, but the level and complexity of requirements placed on the business has also increased. Therefore, Babcock International Group PLC, of which this company is a subsidiary, has undertaken a full review and refresh of our sustainability strategy, to prepare us for the years ahead, and the Company will focus on the following six strategic priorities:

1. Tackling climate change. We have a responsibility to reduce our emissions but must also have a mature understanding of how we will respond to the impacts of climate change.
2. Managing our resources responsibly. We have a responsibility to work with our suppliers and on our own sites to ensure we use resources effectively and efficiently.
3. Protecting the natural environment. Not only is it important to comply with laws and regulations, but where possible we want to enhance the environments we operate in, providing both ecological and social benefits.
4. Ensuring the health safety and wellbeing of our people. Our first duty as a business is to look after our own people. This is not just in relation to matters of safety, but also their physical and mental health. Doing so not only improves the quality of life of our workforce, but it makes us a more productive and successful business.
5. Building an inclusive, diverse and resilient workforce. Inclusion and diversity not only benefit our communities, but it also enables us to build a stronger, more innovative business. We want to nurture and support talent throughout people's careers, regardless of background.
6. Supporting our communities. We will provide positive benefits to the places in which we operate, not only through employment, but also by working with local suppliers, local community groups and charities, through volunteering and STEM outreach.

Climate action remains a key focus, building on our Group wide climate-related risk management process. In 2021, we launched our decarbonisation strategy, Plan Zero 40, where we committed to delivery of a 2030 Science Based Target in line with a 1.5-degree pathway, delivering Net Zero across our own operations (Scope 1 and 2) by 2040 and delivering total Net Zero (Scope 1, 2 and 3) by 2050.

As part of our new sustainability strategy, we are reaffirming our commitment to our long-term emission reduction targets which are:

- Reduce absolute Scope 1 and 2 greenhouse gas emissions (GHG) 90% by 2040 from a 2021 base year.
- Reduce Net Zero greenhouse gas emissions across the value chain by 2050. We also remain committed to our short-term target.

Further details in relation to these activities, and climate related financial disclosures, form part of the Group-wide ESG Strategy as described on pages 64 to 96 of the annual report of Babcock International Group PLC, which does not form part of this report.

The Company has taken advantage of the exemption granted under section 414(7) of the Companies Act 2006 from including climate related financial disclosures within these financial statements.

This report was approved by the board on 25th November 2025 and signed on its behalf by:

D G Hall
Director
25th November 2025

Directors' report for the year ended 31 March 2025

The Directors present their report and the audited financial statements of the Company for the year ended 31 March 2025.

Dividends

No final dividend for the year ended 31 March 2025 is proposed by the Directors (2024: £nil).

Directors and their interests

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

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

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

Future developments

The directors are confident about the future trading prospects of the company due to its remaining contracted order book, its status on a number of zero-valued frameworks and the market opportunities which exist at the balance sheet date.

The orderbook and framework of the business sits at £16.7m as at 31 March 2025 (FY24: £281m) and contains secured orders to the year ended 31 March 2026. It is noted that due to the zero-value frameworks that the business has with Network Rail and Translink, the Company has accessible market opportunities that will convert to orderbook out to March 2029. This metric is one that the business reviews regularly along with pipeline information to ensure continued level of trading and the appropriate size of the business.

The reduction from the prior year represents an alignment of the framework in respect of the Rail Systems Alliance Scotland to represent a zero-value framework to be converted annually at the point of contractual agreement that the Domestic Workbank is agreed with Network Rail. The company will continue to receive annual contracted works against the Domestic Workbank through this framework out to 31 March 2029.

The Company continues to deliver against the 5-year Translink Signalling & Telecommunications Framework that commenced in March 2024. Delivery and engagement has continued to be strong ensuring successful delivery across the significant projects that were in delivery from FY24.

The Company was successful in its tender for the follow-on 8-year National Plant Contract Framework commencing April 2025 and maintained all contracted machines with Network Rail throughout FY25 and into FY26.

In support of the Company's strategic objectives, the Company has aligned itself with the establishment and investment in an in-country presence within the Republic of Ireland, ensuring it is best place to service its targeted growth market building on its initial signalling framework success. Babcock Rail Limited established a legal presence in the Republic of Ireland through an investment in a wholly owned subsidiary; Babcock Rail Ireland Limited (BRIL). A number of significant opportunities are scheduled to come to market across FY26, FY27 and beyond and this remains a primary strategic objective for the Company.

Going concern

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

Directors’ report for the year ended 31 March 2025 *(continued)*

As the Company is part of a larger group it participates in the Group’s centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current asset position of £137.0m. The Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue, and the company has received a letter of support from Babcock International Group Plc confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group Plc to provide such finance.

Following review, the directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The directors have not identified 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.

Employment of disabled persons

As a Group we achieved Level 2 accreditation in the UK Government’s Disability Confident scheme and are working towards Level 3, demonstrating our commitment to attracting, recruiting, on-boarding and retaining disabled people and those with caring responsibilities, and supporting them in the workplace to achieve their full potential.

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

Employee involvement

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

Employees

The Company is committed to equal opportunities and will not discriminate on the basis of disability, age, race, colour, ethnic origin, gender, marital status, religious or political beliefs or sexual orientation.

We believe that only by encouraging applicants from the widest pool of talent possible, and then selecting the best candidate based on their ability to do the job, can we ensure we continue to deliver our best for our customers and safeguard the future of Babcock. For more information about our inclusion and diversity policy, please see page 85 of the annual report of Babcock International Group PLC, which does not form part of this report.

Engagement with UK employees has been considered on page 7 of the Strategic Report.

Safety policy

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

Directors’ report for the year ended 31 March 2025 *(continued)*

Financial risk management

The applicable financial risk management policies and exposure to financial risks including interest, liquidity, currency and credit risks are discussed in detail on pages 242 to 248 of the annual report of Babcock International Group PLC, which does not form part of this report.

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 2025 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 pages 6 and 7.

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.

Events after the reporting period

A provision has been recognised in respect of an obligation arising from events that occurred prior to 31 March 2025. The obligation was identified subsequent to the reporting date, and therefore the provision has been recognised as an adjusting event in accordance with IAS 10 Events after the Reporting Period.

Due to the commercially sensitive nature of the matter, detailed information regarding the timing and amount of expected outflows has not been disclosed. The directors consider that such disclosure would seriously prejudice the company’s position.

The provision recognised at year ended 31 March 2025 amounts to £1.4m.

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.

Directors’ report for the year ended 31 March 2025 *(continued)*

Appointment of auditors

Following appointment as Independent Auditor of the Company last year, Forvis Mazars LLP is willing to continue in office. A resolution to reappoint Forvis Mazars LLP as Independent Auditor has been proposed and approved by the Audit Committee.

Directors’ responsibility statement

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

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

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

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

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group’s website, where specifically regarding the entity of which they are a Director. 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 25th November 2025 and signed on its behalf by:

D G Hall

Director

25th November 2025

Independent auditors' report to the members of Babcock Rail Limited

Opinion

We have audited the financial statements of Babcock Rail Limited (the 'company') for the year ended 31 March 2025 which comprise the income statement, statement of comprehensive income, statement of financial position and statement of changes in equity and notes to the financial statements, including material accounting policy information.

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

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2025 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

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.

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Responsibilities of Directors

As explained more fully in the directors' responsibilities statement set out on page 13, 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 the financial statements.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the company and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: employment (including health and safety), data protection, anti-bribery, anti-fraud, anti-corruption, anti-money laundering, national security, fair trading, environmental, import and export controls and government contracting and procurement regulations and conditions.

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

Auditor’s responsibilities for the audit of the financial statements *(continued)*

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, our procedures included, but were not limited to:

- Inquiring of management and, where appropriate, those charged with governance, as to whether the company is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence, if any, with relevant licensing or regulatory authorities;
- Communicating identified laws and regulations to the engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- Considering the risk of acts by the company which were contrary to applicable laws and regulations, including fraud.

We also considered those laws and regulations that have a direct effect on the preparation of the financial statements, such as financial reporting legislation (including related company legislation such as the Companies Act 2006), pensions legislation and taxation legislation.

In addition, we evaluated the directors’ and management’s incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates, in particular in relation to contract revenue and margin recognition on contracts with indicators of heightened audit risk and the associated accounting for contract assets, contract liabilities, provisions, contingent assets and contingent liabilities, and significant one-off or unusual transactions.

Our audit procedures in relation to fraud included but were not limited to:

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risks related to fraud;
- Discussing amongst the engagement team the risks of fraud; and
- Addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council’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)*

Use of the audit 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.

Valerie Levi
Valerie Levi (Nov 25, 2025 13:01:01 GMT)

Valerie Levi (Senior Statutory Auditor)
for and on behalf of Forvis Mazars LLP

Chartered Accountants and Statutory Auditor
One St Peters Square
Manchester
M2 3DE

25th November 2025

Income statement for the year ended 31 March 2025

	Note	**2025** **£'000**	2024 £'000 *Restated
Revenue	4	**116,338**	170,951
Cost of revenue		**(105,380)**	(155,678)
Gross profit		**10,958**	15,273
Administrative expenses		**(16,205)**	(10,500)
Operating (loss)/profit	5	**(5,247)**	4,773
Share of results of joint ventures and associates		**2**	126
Finance income	6	**9,110**	8,775
Finance costs	6	**(2,018)**	(1,086)
Profit before taxation		**1,847**	12,588
Income tax expense	9	**(592)**	(373)
Profit for the financial year		**1,255**	12,215

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The notes on pages 22 to 54 form part of these financial statements.

All of the above results derive from continuing operations.

Statement of comprehensive income for the year ended 31 March 2025

	Note	**2025** **£’000**	2024 £’000 *Restated
Profit for the financial year		**1,255**	12,215
Other comprehensive expense:			
Items that will not be subsequently reclassified to income statement:			
Loss on remeasurement of net defined benefit obligation	22	**(9,228)**	(18,402)
Tax on net defined benefit obligation	9	**2,307**	4,601
Total comprehensive expense for the year		**(5,666)**	(1,586)

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Statement of financial position as at 31 March 2025

	Note	2025 £'000	2024 £'000 *Restated
Non-current assets			
Intangible assets	10	**15**	46
Property, plant and equipment	11	**52**	291
Right-of-use assets	12	**3,737**	3,802
Investments in subsidiaries	13	**8**	-
Investments in joint ventures	14	**166**	164
Deferred tax assets	9	**3,811**	1,120
Trade and other receivables	16	**-**	141,880
		7,789	147,303
Current assets			
Inventories	15	**744**	748
Trade and other receivables	16	**159,503**	26,174
Cash and cash equivalents		**5,931**	31,102
		166,178	58,024
Current liabilities			
Lease liabilities	12	**(391)**	(1,330)
Trade and other payables	17	**(23,834)**	(64,212)
Provision for liabilities	19	**(4,988)**	(527)
Net current assets/(liabilities)		**136,965**	(8,045)
Total assets less current liabilities		**144,754**	139,258
Non-current liabilities			
Lease liabilities	12	**(1,879)**	(2,383)
Retirement benefit deficits	22	**(11,601)**	(2,244)
Provision for liabilities	19	**(3,305)**	(996)
Net assets		**127,969**	133,635
Capital and reserves			
Called up share capital	20	**10**	10
Share premium account		**88,950**	88,950
Other reserves		**916**	916
Retained earnings		**38,093**	43,759
Total shareholders' funds		**127,969**	133,635

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The notes on pages 22 to 54 are an integral part of these financial statements.

The financial statements on pages 18 to 54 were approved and authorised for issue by the board of Directors on 25th November 2025 and signed on its behalf by:

D G Hall
Director :

Statement of changes in equity as at 31 March 2025

	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total shareholders' funds £'000
Balance at 1 April 2023	**10**	**88,950**	**916**	**43,162**	**133,038**
Prior year restatement (note 18)*	**-**	**-**	**-**	2,183	2,183
Balance at 1 April 2023 restated*	**10**	**88,950**	**916**	**45,345**	**135,221**
Profit for the financial year restated*	-	-	-	12,215	12,215
Other comprehensive expense	-	-	-	(13,801)	(13,801)
Total comprehensive expense	-	-	-	(1,586)	(1,586)
Balance at 31 March 2024 restated*	**10**	**88,950**	**916**	**43,759**	**133,635**
Profit for the financial year	-	-	-	1,255	1,255
Other comprehensive expense	-	-	-	(6,921)	(6,921)
Total comprehensive expense	-	-	-	(5,666)	(5,666)
Balance at 31 March 2025	**10**	**88,950**	**916**	**38,093**	**127,969**

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Presented within Other reserves, there is a Capital redemption reserve £898k (2024: £898k) and a Revaluation reserve £18k (2024: £18k). The Capital redemption reserve is non-distributable. This reserve was established on 12 November 1995 in connection with the acquisition of the Scotland Infrastructure Unit, a division of the British Railways Board. The reserve represents the excess of net assets acquired over the debenture loan stock and share capital issued as consideration. In accordance with the provisions of the Companies Act and the requirements of FRS 101, the capital redemption reserve is maintained to protect the interests of creditors and is not available for distribution by way of dividend. The revaluation reserve arose on the revaluation of an asset to reflect its fair value. The revaluation reserve is non-distributable.

Notes to the financial statements *(continued)*

1 General information

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

Its ultimate controlling party is disclosed in note 28. The principal activity of the Company is set out in the Strategic Report on page 3. These financial statements, which have been prepared in accordance with the Companies Act 2006, are presented in pounds sterling and, unless stated otherwise, rounded to the nearest thousand.

2 Summary of material accounting policies

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

Basis of preparation

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 (FRS 100) issued by the Financial Reporting Council. Accordingly, these financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Where relevant, equivalent disclosures have been given in the group accounts of Babcock International Group PLC.

These financial statements are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments). The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest thousand.

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

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

In preparing these financial statements, the Company applies the recognition and measurement requirements of International Financial Reporting Standards (IFRS) as adopted by the UK, but makes amendments where necessary in order to comply with the Companies Act 2006 and sets out below where advantage of the FRS 101 disclosure exemptions have been taken:

a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'.
b) Paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 'Business Combinations'.
c) Paragraph 33(c) of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.
d) IFRS 7, 'Financial instruments: Disclosures'.
e) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
f) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers.
g) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 58, 90, 91 and 93 of IFRS 16 Leases.
h) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
   - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
   - paragraph 73(e) of IAS 16 Property, plant and equipment; and
   - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period).

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Basis of preparation *(continued)*

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

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

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

Adoption of new and revised standards

The following standards and amendments to IFRSs became effective for the annual reporting period beginning on 1 April 2024 and did not have a material impact on the financial statements:

- *Amendments to IAS 7 and IFRS 7 – Supplier Finance Arrangements*: These amendments add disclosure objectives to IAS 7 about supplier finance arrangements that enable users to assess the effect of such arrangements on the Company's liabilities and cash flows. Additionally, the amendments revise IFRS 7 to add supplier finance arrangements as an example of liquidity risk within financial risk management. The Company does not currently participate in any supplier finance arrangements and therefore these amendments have had no impact on the current or prior period Income Statement or Statement of Financial Position.
- *Amendments to IAS 1 – Classification of Liabilities as Current or Non-current*: These amendments affect only the presentation of liabilities as current or non-current in the statement of financial position.
- *Amendments to IAS 1 – Non-current Liabilities with Covenants:* These amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current).
- *Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback*: These amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in IFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.

The Company has not early adopted any other amendment, standard or interpretation that has been issued but is not yet effective. It is expected that these standards and amendments will be adopted on the applicable effective date.

Going concern

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

As the Company is part of a larger group it participates in the Group's centralised treasury arrangements and so shares banking arrangements with its parents and fellow subsidiaries. The Company is in a net current asset position of £137.0m. The Company is expected to be in a position to obtain finance via intercompany loans to continue to operate for at least twelve months from when the financial statements are authorised for issue, and the company has received a letter of support from Babcock International Group Plc confirming this position. In completing this analysis, the Directors have considered the ability of Babcock International Group Plc to provide such finance.

Following review, the directors have concluded that the Company has adequate resources to continue as a going concern for at least 12 months from the date of signing these financial statements. The directors have not identified any material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Joint Ventures

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

Revenue

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

(a) Performance obligations

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue (*continued)*

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

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

Variable consideration is estimated using either the expected value or the most likely amount only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved. This judgement is made by suitably qualified and experienced personnel based on the contract terms, status of negotiations with customers and historical experience with customers and with similar contracts. As part of this judgement, variable consideration may be constrained until the uncertainty is resolved. In the case of unpriced variations, these will be constrained to the extent that reversal of cumulative revenue including such variable consideration is not considered highly probable.

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

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

(c) 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.

Typical performance obligations in the Company’s contracts that are recognised over time include the delivery of services (such as maintenance, engineering and training), as the customer simultaneously receives and consumes the benefits of the Company’s performance as it performs the services.

Revenue from the design, manufacture and enhancement of bespoke assets is also recognised over time, as the Company’s performance does not create an asset with an alternative use to the Company and the Company has an enforceable right to payment for performance completed to date, being recovery of costs incurred in satisfying the performance obligation plus a reasonable profit margin.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(c) Revenue and profit recognition *(continued)*

Revenue recognised over time *(continued)*

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

Under most of the Company's contracts, the customer pays in accordance with a pre-arranged payment schedule or once milestones have been met. If the amount of revenue recognised by the Company (as measured by the methods described above) exceed the amount of cash received from the customer then the difference will be held on the statement of financial position. This will typically be comprised of a mixture of contract assets and trade receivables. If the amount of cash collected together with amounts due under the contract but uncollected exceeds the amount of revenue recognised then the difference is also held on the statement of financial position as a contract liability. See section (g) for further details on how contract assets and liabilities are recognised.

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

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

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

Estimating contract revenues can involve judgements around whether the Company will meet performance targets and earn incentives, as well as consideration as to whether it is necessary to constrain variable revenues to meet the highly probable not to significantly reverse test set out in paragraph 56 of IFRS 15. When considering variations, claims and contingencies, the Company analyses various factors including the contractual terms, status of negotiations with the customer and historical experience with that customer and with similar contracts. Estimates of costs include assessment of contract contingencies arising out of technical, commercial, operational and other risks. The assessments of all significant contract outturns are subject to review and challenge and estimation uncertainty is resolved on a contract-by-contract basis as contracts near the end of the project lifecycle.

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(d) Contract modifications

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

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

These contract claims and variations are modifications as described in paragraph 18 of IFRS 15.

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

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

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Revenue *(continued)*

(f) Costs to fulfil a contract

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

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

Costs of recruiting or training staff are expensed as incurred.

(g) Contract assets and liabilities

Contract assets represent amounts for which the Company has a conditional right to consideration in exchange for goods or services that the Company has transferred to the customer. Contract liabilities represent the obligation to transfer goods or services to a customer for which consideration has been received, or consideration is due, from the customer.

Payment terms are set out in the contract and reflect the timing and performance of service delivery. For substantially all contracts the payment terms are broadly in line with satisfaction of performance obligations, and therefore recognition of revenue, such that each contract has either a contract asset or contract liability, however these are not overly material in the context of the contract.

Finance income

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

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.

Employee benefits

(a) Pension obligations

Defined benefit scheme

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

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

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Employee benefits *(continued)*

(a) Pension obligations *(continued)*

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

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

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

Taxation

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

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

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

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred tax assets are recognised where deferred tax liabilities exist and are expected to reverse in the same period as the deferred tax asset or in periods into which a loss arising from a deferred tax asset can be carried forward or back.

In the absence of sufficient deferred tax liabilities, deferred tax assets are recognised where it is probable that there will be future taxable profits from other sources against which a loss arising from the deferred tax asset can be offset. In assessing the availability of future profits, the Company uses profit forecasts consistent with those used for goodwill impairment testing. Profits forecast beyond the Company's five-year budget cycle are risk-weighted to reflect commercial uncertainties.

Notes to the financial statements *(continued)*

2 Summary of material accounting policies *(continued)*

Taxation *(continued)*

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

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

Intangible assets

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

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

The Company does not amortise goodwill in accordance with the requirements of IFRS as applied under FRS 101. Instead, an annual impairment test is performed and any impairment that is identified is recognised in the income statement. Goodwill impairments are not subsequently reversed. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal. 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.

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

Property, plant and equipment

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

Notes to the financial statements *(continued)*

2 Summary of material 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'.

Investments

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

Investments in Joint Ventures

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

Impairment of non-current assets

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

2 Summary of material accounting policies *(continued)*

Impairment of non-current assets *(continued)*

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

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

Inventory

Inventory is valued at the lower of cost and net realisable value, being the estimated selling price of the assets in the ordinary course of business less estimated costs of completion and costs of sale. In the case of finished goods and work in progress, cost comprises direct material and labour and an appropriate proportion of overheads. Inventory is valued using a first-in, first-out (‘FIFO’) basis.

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

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

Trade and other payables

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

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

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

2 Summary of material accounting policies *(continued)*

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. Any restatements identified relating to reporting periods before 1 April 23 have been corrected by cumulatively restating the impacted statement of financial position line item, including retained earnings, at 1 April 23. The impact of the prior year adjustment is disclosed in note 18.

Provisions

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

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

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

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

Contingent liabilities

A contingent liability is a possible obligation arising from past events whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Company's control, or a present obligation that is not recognised because it is not probable that an outflow of economic benefits will occur or the value of such outflow cannot be measured reliably. A provision is recognised for any amounts that the Directors consider may become payable. See note 24 for details of contingent liabilities.

Financial instruments

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

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

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

Notes to the financial statements *(continued)*

2 Summary of material 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 statement of financial position are assumed to approximate to fair value due to their short-term nature, with the exception of fixed rate bonds.

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

Dividends

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

Foreign currencies

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

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

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements

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

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

Acting as Principal or Agent
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 following represent the notable assumptions impacting upon revenue and profit recognition as a result of the Company's contracts with customers:

- *Stage of completion & costs to complete* – 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 with adjustments made where necessary. As contracts near completion, often less judgement is required to determine the expected outturn.
- *Variable consideration* – the Company's contracts are often subject to variable consideration including performance-based penalties and incentives, gain/pain share arrangements and other items. Variable consideration is added to the transaction price only to the extent that it is highly probable that there will not be a significant reversal in the amount of cumulative revenue recognised once the underlying uncertainty is resolved.
- *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 revenue and 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. The Company endeavours to include cost recovery mechanisms or index-linked pricing within its contracts with customers in order to mitigate any inflation risk arising from increasing employment and raw material costs.

Notes to the financial statements *(continued)*

3 Critical accounting estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Revenue and profit recognition *(continued)*
The above assumptions all impact upon each individual contract to varying extents depending on the risk profile of the contract and the individual contract terms and conditions. As such sensitivities to these assumptions are not provided as to do so is not considered practicable.

Defined benefit pension scheme
The Company's defined benefit pension scheme is assessed annually in accordance with IAS 19 and the valuation of the defined benefit pension obligations is sensitive to the inflation and discount rate actuarial assumptions used. There is a range of possible values for the assumptions and small changes to the assumptions may have a significant impact on the valuation of the defined benefit pension obligations. In addition to the inflation and discount rate estimates, management is required to make an accounting judgement relating to the expected availability of future accounting surpluses under IFRIC 14. Further information on the key assumptions and sensitivities is included in note 22.

4 Revenue

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

	2025 **£'000**	2024 £'000
By area of activity:		
Provision of services – transferred over time	**116,338**	170,951

	2025 **£'000**	2024 £'000
By geographical area:		
United Kingdom	**116,338**	170,908
Rest of Europe	**-**	43
	116,338	170,951

5 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting):

	2025 **£'000**	2024 £'000 *Restated
Depreciation of property, plant and equipment (Note 11)	**239**	285
Right of use depreciation (Note 12)	**1,234**	1,186
Amortisation of intangible assets (Note 10)	**31**	31
Inventory recognised as an expense (Note 15)	**4**	(76)

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Fees paid to the Company's auditors, Forvis Mazars LLP, and its associates, (2024: Deloitte LLP and its associates) for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. Auditor fees of £237k (2024: £117k) were borne by a fellow group company.

6 Finance income and costs

	2025 £'000	2024 £'000 *Restated
Finance income:		
Loan interest receivable from group undertakings	**9,110**	8,081
Retirement benefit interest (Note 22)	**-**	694
	9,110	8,775
Finance costs:		
Lease interest	**(208)**	(151)
Loan interest payable to group undertakings	**(89)**	(935)
Retirement benefit interest (Note 22)	**(108)**	-
Other	**(1,613)**	-
	(2,018)	(1,086)

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Other finance costs relates to the estimated interest payable resulting from a provision created in relation to the previously disclosed contingent liability for a number of potential errors identified in relation to supplier payments falling within the scope of the Construction Industry Scheme (CIS) and Domestic Reverse Charge (DRC) VAT legislation (Note 24). It makes up part of the legal provision in respect of this (Note 19).

7 Staff costs

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

	2025 Number	2024 Number
By activity:		
Operations	**350**	374
Management and administration	**326**	371
	676	745

Their aggregate remuneration comprised:

	2025 £'000	2024 £'000
Wages and salaries	**39,997**	47,621
Social security costs	**4,993**	5,755
Pension costs – defined contribution plans (Note 22)	**3,051**	457
Pension costs – defined benefit plans (Note 22)	**625**	2,065
	48,666	55,898

During the year, the average number of employees recharged to other Babcock entities was 4 (2024: 5). During the year, the average number of employees recharged from other Babcock entities was 3 (2024: 4). The total cost recharged included in the above was nil (2024: £nil).

Notes to the financial statements *(continued)*

8 Directors' emoluments

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

	2025 £'000	2024 £'000
Remuneration (including benefits in-kind)	**199**	196
Defined contribution pension scheme	**12**	10
	211	206

During the year no (2024: no) Directors remunerated by Babcock Rail Limited exercised share options under long term incentive plans and two (2024: three) Directors were entitled to receive share options under long term incentive plans.

Retirement benefits are accruing to no Directors (2024: none) under defined benefit pension schemes.

Five Directors held office at some point during the year and up to date of signing the annual report. Except for one (2024: one) Director, 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 include the following in respect of the highest paid Director:

	2025 £'000	2024 £'000
Remuneration (including benefits in-kind)	**199**	196
Defined contribution pension scheme	**12**	10
	211	206

The highest paid Director did not exercise shares under long term incentive plans (2024: did not exercise shares under long term incentive plans).

9 Tax

Income tax (benefit)/expense

	2025 £'000	2024 £'000
Analysis of tax (benefit)/expense in the year		
Current tax		
Group relief for consideration	**976**	-
Deferred tax		
UK current year (benefit)/expense	**(455)**	373
UK prior year expense	**71**	-
Total income tax expense	**592**	373

Tax (benefit) to the statement of comprehensive income

	2025 £'000	2024 £'000
Tax impact of actuarial losses on pension liability	**(2,307)**	(4,601)
Total income tax (benefit) to other comprehensive income	**(2,307)**	(4,601)

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

9 Tax *(continued)*

Income tax (benefit)/expense *(continued)*

The tax for the year is higher (2024: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2025 £'000	Year ended 31 March 2024 £'000 *Restated
Profit before tax	**1,847**	12,588
Profit multiplied by rate of corporation tax in the UK of 25% (2024: 25%)	**462**	3,147
Effects of:		
Expenses not deductible for tax purposes	**59**	40
Adjustments in respect of deferred tax for prior years	**71**	-
Group relief claimed for nil consideration	**-**	(2,814)
Total income tax expense	**592**	373

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

In July 2023, the UK enacted legislation to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting and a UK qualified domestic minimum top-up tax. The legislation applies to the Company with effect from 1 April 2024. Under the Pillar Two rules, a top-up tax liability arises where the effective tax rate of the Company and its fellow subsidiaries in the same jurisdiction is below 15%. The Company has applied the temporary mandatory relief from deferred tax accounting for the impacts of the top-up tax and accounts for it as a current tax when it is incurred.

The Company does not expect to have a Pillar Two tax liability for the period.

Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax balances have been calculated at 25%.

Deferred tax

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

	Year ended 31 March 2025 £'000	Year ended 31 March 2024 £'000
Deferred tax asset	**3,811**	1,120
	3,811	1,120

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

9 Tax *(continued)*

Deferred tax *(continued)*

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

	Tangible assets £'000	Retirement benefit obligations £'000	Other £'000	Total £'000
At 1 April 2024	97	561	462	1,120
Income statement credit/(debit)	67	32	285	384
Tax credit to other comprehensive income/equity	-	2,307	-	2,307
At 31 March 2025	**164**	**2,900**	**747**	**3,811**
At 1 April 2023	107	(3,551)	336	(3,108)
Income statement credit/(debit) *Restated	(10)	(489)	126	(373)
Tax credit to other comprehensive income/equity	-	4,601	-	4,601
At 31 March 2024 *Restated	97	561	462	1,120

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

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

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

10 Intangible assets

	Software £'000	**Goodwill £'000**	**Total £'000**
Cost			
At 1 April 2024 as previously reported	-	13,600	13,600
Prior year restatement (note 18)	3,369	-	3,369
At 1 April 2024 *Restated	3,369	13,600	16,969
Disposals	(3,246)	-	(3,246)
At 31 March 2025	**123**	**13,600**	**13,723**
Accumulated amortisation and impairment			
At 1 April 2024 as previously reported	-	(13,600)	(13,600)
Prior year restatement (note 18)	(3,323)	-	(3,323)
At 1 April 2024 *Restated	(3,323)	(13,600)	(16,923)
Amortisation of software	(31)	-	(31)
Disposals	3,246	-	3,246
At 31 March 2025	**(108)**	**(13,600)**	**(13,708)**
Net book value			
At 31 March 2025	**15**	**-**	**15**
At 31 March 2024 *Restated	46	-	46

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

The goodwill arose on the acquisition of the trade and assets of First Projects Limited.

Notes to the financial statements *(continued)*

11 Property, plant and equipment

	Leasehold property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2024 as previously reported	2,573	8,295	10,868
Prior year restatement (note 18)	-	(3,010)	(3,010)
At 1 April 2024 *Restated	2,573	5,285	7,858
Additions	-	-	-
Disposals	(640)	-	(640)
At 31 March 2025	**1,933**	**5,285**	**7,218**
Accumulated depreciation			
At 1 April 2024 as previously reported	(2,282)	(8,249)	(10,531)
Prior year restatement (note 18)	-	2,964	2,964
At 1 April 2024 *Restated	(2,282)	(5,285)	(7,567)
Charge for the year	(239)	-	(239)
Disposals	640	-	640
At 31 March 2025	**(1,881)**	**(5,285)**	**(7,166)**
Net book value			
At 31 March 2025	**52**	**-**	**52**
At 31 March 2024 *Restated	291	-	291

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Notes to the financial statements *(continued)*

12 Leases

Right-of-use assets

The Company leases buildings and vehicles under non-cancellable lease arrangements.

	Property £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 April 2024 as previously reported	9,217	1,730	10,947
Prior year restatement (note 18)	(1,056)	20	(1,036)
At 1 April 2024 *Restated	8,161	1,750	9,911
Additions	1,290	1,828	3,118
Terminations	(21)	(355)	(376)
Group transfers	-	(3,196)	(3,196)
At 31 March 2025	**9,430**	**27**	**9,457**
Accumulated depreciation			
At 1 April 2024 as previously reported	(6,276)	(1,082)	(7,358)
Prior year restatement (note 18)	1,269	(20)	1,249
At 1 April 2024 *Restated	(5,007)	(1,102)	(6,109)
Charge for the year	(693)	(541)	(1,234)
Terminations	-	480	480
Group transfers	-	1,143	1,143
At 31 March 2025	**(5,700)**	**(20)**	**(5,720)**
Net book value			
At 31 March 2025	**3,730**	**7**	**3,737**
At 31 March 2024 *Restated	3,154	648	3,802

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

Lease liabilities

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

	2025 £'000	2024 £'000
At 1 April	**3,713**	3,428
Additions	**1,828**	2,270
Disposals	**50**	(331)
Group transfer	**(2,053)**	-
Interest charged (Note 6)	**208**	151
Payments	**(1,476)**	(1,805)
At 31 March	**2,270**	3,713

Notes to the financial statements *(continued)*

12 Leases *(continued)*

Discounted future minimum lease payments are as follows:

	31 March 2025 £'000	31 March 2024 £'000
Within one year	**391**	1,330
In more than one year, but not more than five years	**1,870**	1,989
After five years	**9**	394
Carrying value of liability	**2,270**	3,713

The Company had total cash outflows for leases of £1,476k for the year ended 31 March 2025 (2024: £1,805k).

The following are the amounts recognised in profit or loss:

	31 March 2025 £'000	31 March 2024 £'000
Depreciation expense on right to use assets	**1,234**	1,186
Interest expense on lease liabilities	**208**	151
	1,442	1,337

13 Investments in subsidiaries

	2025	2024
	Shares in group undertakings £'000	Shares in group undertakings £'000
Cost		
At 1 April	**-**	-
Additions	8	-
At 31 March	**8**	**-**
Impairment at 1 April and 31 March	**-**	**-**
Net Book Value		
At 1 April	**-**	-
At 31 March	**8**	**-**

The Company's wholly-owned subsidiary undertaking is:

Company	**Country**	**Principal activities**
Babcock Rail Ireland Limited	Block 1, Harcourt Centre, Harcourt Street, Dublin 2, Ireland	Maintenance & Construction of Railways

Babcock Rail Ireland Limited was incorporated on 3 October 2024 as a private company limited by shares. At that date, Babcock Rail Limited subscribed to 100% of the issued share capital of 10,000 ordinary shares of €1 each.

The Directors believe that the carrying value of the investment is supported by its underlying net assets.

Notes to the financial statements *(continued)*

14 Investments in joint ventures

	31 March 2025 £'000	31 March 2024 £'000
Cost		
At 1 April	164	163
Share of profit	2	126
Dividend received	-	(125)
At 31 March	**166**	164

During the year the Company received a dividend of £nil from ABC Electrification Limited (2024: £125)

The Company's joint ventures are:

	Year end	Business Activity	% 2025	% 2024	Country
FSP (2004) Limited	31 March	Plant hire	50.0%	50.0%	UK
ABC Electrification Limited	31 March	Railway electrification Services	33.3%	33.3%	UK

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

15 Inventories

	31 March 2025 £'000	31 March 2024 £'000
Raw materials	**744**	748

Inventories are stated after provisions for impairment of £nil (2024: £nil).

The cost of inventory recognised as an expense and included in 'cost of revenue' amounted to £4k (2024: £76k credit).

16 Trade and other receivables

	31 March 2025 £'000	31 March 2024 £'000
Non-current assets:		
Amounts due from parent and group undertakings	**-**	141,880
	-	141,880
Current assets:		
Trade receivables	**7,313**	9,542
Contract assets	**1,463**	14,695
Amounts due from parent and group undertakings	**150,494**	1,533
Amounts due from joint venture	**-**	7
Other receivables	**60**	-
Prepayments	**173**	397
	159,503	26,174

Amounts due from Group undertakings comprises the following:

- A loan of £140,638k (2024: £140,638k) is due for repayment in November 2028, or at any time requested by the lender giving no less than five business days prior written notice. The interest rate is LIBOR +1.5%.
- All other amounts due from group undertakings are unsecured and repayable on demand.

Notes to the financial statements *(continued)*

16 Trade and other receivables *(continued)*

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

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

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

- £12.7m reduction against the Rail Systems Alliance Scotland Framework associated with the final account and completion of works in relation to Control Period 6 Year 5
- Net £0.5m reduction across Rail Systems (Translink) operations, equally associated with the completion of works and final account partially offset by an increase in customer retentions to be claimed in accordance with contract stipulations and timeline.

	£'000
At 1 April 2024	14,695
Transfers from contract assets recognised at the beginning of the year to trade receivables	(14,695)
Increase due to work done not transferred from contract assets	1,463
At 31 March 2025	**1,463**

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

17 Trade and other payables

	2025	2024
	£'000	£'000
Current liabilities:		
Trade payables	**2,151**	3,507
Contract liabilities	**11,299**	18,965
Debenture loan stock	**5,700**	5,700
Amounts due to parent and group undertakings	**1,224**	28,651
Amounts due to joint ventures	**434**	230
Other taxation and social security	**2,994**	7,068
Other payables	**32**	91
	23,834	64,212

Amounts due to parent and group undertakings are unsecured, interest free, and repayable on demand.

Notes to the financial statements *(continued)*

17 Trade and other payables (continued)

	Contract liabilities £'000
At 1 April 2024	18,965
Amounts utilised	(18,965)
Amounts accrued	11,299
At 31 March 2025	**11,299**
At 1 April 2023	14,823
Amounts utilised	(14,823)
Amounts accrued	18,965
At 31 March 2024	**18,965**

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

- £1.5m reduction against the Rail Systems Alliance Scotland Framework associated with the final account and completion of works in relation to Control Period 6 Year 5.
- £5.6m reduction across Rail Systems (Translink) operations, equally associated with the completion of works and final accounts across significant projects that in delivery in FY24.
- £0.5m reduction across Rail Systems (Mainland Signalling Frameworks Scotland) associated with the completion of project delivery upon expiry of the framework.

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.

In the prior year, the Company had access to the Babcock International Group PLC overdraft facility, and along with fellow group undertakings provided cross-guarantees in relation to this facility. These were cancelled in the period to 31 March 2025 (Note 24).

18 Prior year restatements

In the year ended 31 March 2025, the Company restated the prior year financial information. The restatements are summarised below:

Impact on the Income statement and Statement of Comprehensive Income for the year ended 31 March 2024 (extract)

	Year ended 31 March 2024 (previously published) £'000	(i)Retirement benefit interest correction £'000	Right-of-use-assets correction £'000	Year ended 31 March 2024 (restated) £'000
Cost of revenue	(154,503)	(1,388)	213	(155,678)
Gross profit*	16,448	(1,388)	213	15,273
Operating profit*	5,948	(1,388)	213	4,773
Finance income	8,081	694	-	8,775
Finance costs	(1,780)	694	-	(1,086)
Income tax expense	(375)	-	2	(373)
Profit for the year*	12,000	-	215	12,215
Tax on net defined benefit obligation	4,600	-	1	4,601
Total comprehensive expense for the year	(1,802)	-	216	(1,586)

*The table above includes only those financial statement line items which have been restated. The total gross profit, operating profit and profit for the year do not therefore represent the sum of the line items presented above.

Notes to the financial statements *(continued)*

18 Prior year restatements *(continued)*

31 March 2024 – Statement of financial position (extract)

	31 March 2024 (previously published)	(ii)Transfer of software to intangible assets	(iii)De-recognition of general impairment provision	(iv) Right-of-use-assets correction	31 March 2024 (restated)
	£'000	£'000	£'000	£'000	£'000
Assets					
Non-current assets					
Intangible assets	-	46	-	-	46
Property, plant and equipment	337	(46)	-	-	291
Right-of-use assets	3,589	-	-	213	3,802
Deferred tax asset	1,117	-	-	3	1,120
Total non-current assets*	147,087	-	-	216	147,303
Total assets less current liabilities*	139,042	-	-	216	139,258
Non-current liabilities					
Provisions for liabilities	(3,179)	-	2,183	-	(996)
Net assets*	131,236	-	2,183	216	133,635
Capital and reserves					
Retained earnings	41,360	-	2,183	216	43,759
Total shareholders' funds*	131,236	-	2,183	216	133,635

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

(i) Retirement benefit interest correction
In the year ended 31 March 2025, it was identified that the retirement benefit interest income for the year ended 31 March 2024 had been treated as cost with an offsetting adjustment to cost of revenue. This has been corrected through a prior year adjustment to cost of revenue, finance income and finance cost.

(ii) Transfer of software to intangible assets
In the year ended 31 March 2025, it was identified that software costs and accumulated amortisation had been included in property, plant and equipment. This has been corrected through a prior year adjustment of £3,369k cost and £3,323k accumulated amortisation resulting in the £46k NBV shown above.
Additionally, a further overstated error within property, plant and equipment was identified, resulting in a £359k reduction in cost and £359k reduction to accumulated depreciation giving a £nil NBV impact.

(iii) De-recognition of general impairment provision
In the year ended 31 March 2025, it was identified that the general impairment provision originally recognised at year ended 31 March 2022 was incorrectly still recognised at year ended 31 March 2023. This has been corrected through a prior year adjustment of £2,183k reduction in provisions and increase in retained earnings, reflecting the reversal of the provision through the year ended 31 March 2023 Income Statement. There is no tax impact as there was no deferred tax recognised in previous years in relation to this provision.

(iv) Right-of-use-assets correction
In the year ended 31 March 2025, there has been both a property lease correction and fair value adjustment, both affecting right-of-use-assets. This correction decreases cost by £1,036k, decreases accumulated depreciation by £1,249k and increases deferred tax assets by £3k, resulting in the £213k NBV increase (note 12). The fair value adjustment has no impact on overall NBV. All of the NBV impact is attributable to the property lease correction.

Notes to the financial statements *(continued)*

19 Provisions for liabilities

The Company had the following provisions during the year:

	Environment £'000	Impairment £'000	Employee benefits and reorganisation costs £'000	Property £'000	Legal £'000	Total £'000
At 1 April 2024	527	2,183	-	996	-	3,706
Prior year statement (note 18)	-	(2,183)	-	-	-	(2,183)
At 1 April 2024 *Restated	527	-	-	996	-	1,523
Charged to the income statement	10	-	2,817	1,453	5,164	9,444
Utilised in the year	(11)	-	(2,663)	-	-	(2,674)
At 31 March 2025	**526**	**-**	**154**	**2,449**	**5,164**	**8,293**

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

	31 March 2025 £'000	31 March 2024 £'000 *Restated
Current	**4,988**	527
Non-current	**3,305**	996
Total	**8,293**	1,523

*In the year ended 31 March 2025, the Company restated the prior year financial information. Details of the restatement are contained in note 18.

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

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

Legal costs relate to a provision created against late payment interest charges and penalties resulting from the contingent liability previously disclosed reference potential compliance errors identified in relation to supplier payments falling within the scope of the Construction Industry Scheme (CIS) and Domestic Reverse Charge (DRC) VAT legislation. Regarding a separate incident, additional information emerged in July 2025 concerning circumstances that existed at the reporting date. A provision under IAS37 for £1.4m was made as a result of the additional information. See note 25 for further detail.

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

Notes to the financial statements *(continued)*

20 Share capital

	31 March 2025 £'000	31 March 2024 £'000
Allotted, called up and fully paid		
10,225 ordinary shares of £1 each (2024: 10,225 ordinary shares of £1 each)	**10**	10

Ordinary shares carry one vote per share and the right to receive dividends. There are no restrictions on the distribution of dividends or repayment of capital.

21 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.

	Year ended 31 March 2025 £'000	Balance at 31 March 2025 £'000	Year ended 31 March 2024 £'000	Balance at 31 March 2024 £'000
FSP (2004) Limited	**21**	**-**	19	-

22 Pension commitments

Pension costs for defined contribution schemes are as follows:

	31 March 2025 £'000	31 March 2024 £'000
Defined contribution schemes	**3,051**	457

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

	31 March 2025 £'000	31 March 2024 £'000
Retirement benefits – fair value of assets	**199,429**	235,073
Retirement benefits – present value of defined benefit obligations	**(211,030)**	(237,317)
	(11,601)	(2,244)

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

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

The Company is liable for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme which have been recognised in these financial statements are detailed in this note.

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

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

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The scheme has mitigated some of these risks by taking out longevity swaps in respect of pensioners and their spouses,

through a common investment committee significantly hedging the interest rate and inflation risk though derivative instruments and introducing benefit changes impacting future service benefits which included

capping of pensionable salaries, capping pension increases, increasing normal retirement age in line with state pension ages and increasing the level of member contributions.

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

Babcock Rail Limited Section of the Railways Pension Scheme
The IAS 19 valuation has been updated at 31 March 2025 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 31 December 2022. The major assumptions used for the IAS 19 valuation were:

	2025	2024
Major assumptions		
Rate of increase in pensionable salaries	**0.5%**	0.5%
Rate of increase in pensions	**2.7%**	2.8%
Discount rate	**5.7%**	4.8%
Inflation rate (RPI)	**3.1%**	3.2%
Inflation rate (CPI)	**2.7%**	2.8%
Weighted average duration of cash flows (years)	**12**	13
Total life expectancy for current pensioners aged 65 (years) – male	**84.9**	85.0
Total life expectancy for current pensioners aged 65 (years) – female	**87.2**	87.3
Total life expectancy for future pensioners currently aged 45 (years) – male	**85.9**	86.0
Total life expectancy for future pensioners currently aged 45 (years) – female	**88.4**	88.5

The Company's cash contribution rates payable to the scheme is expected to be as follows:

	RPS
Future service contribution rate	7.68%
Future service cash contributions	£0.2m
Expected employer cash costs for 2025/26	£0.2m
Expected salary sacrifice contributions	£0.1m
Expected total employer contributions	£0.3m

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

The changes to the Babcock Rail Limited statement of financial position at March 2025 and the changes to the Babcock Rail Limited income statement for the year to March 2026, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2025 £'000	**Income statement 2026 £'000**
Initial assumptions	211,030	984
Discount rate assumptions increased by 0.5%	(11,194)	(645)
Discount rate assumptions decreased by 0.5%	11,193	531
Inflation rate assumptions increased by 0.5%	11,435	660
Inflation rate assumptions decreased by 0.5%	(10,266)	(593)
Total life expectancy increased by half a year	2,486	143
Total life expectancy decreased by half a year	(2,486)	(143)
Salary increase assumptions increased by 0.5%	-	-
Salary increase assumptions decreased by 0.5%	-	-

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2025 were:

Fair value of plan of assets	**2025 £'000**	2024 £'000
Growth assets		
Equities	**9,465**	9,750
Property funds	**113**	209
Absolute return and multi-strategy funds	**110,718**	140,774
Low-risk assets		
Bonds	**10,664**	82,798
Matching assets	**68,469**	1,542
Fair value of assets	**199,429**	**235,073**
Total defined benefit obligations	**211,030**	237,317
Net (liabilities) recognised in the statement of financial position	**(11,601)**	(2,244)

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

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

	2025 £'000	2024 £'000
Current service cost	**119**	818
Incurred expenses	**398**	357
Total included within operating profit	**517**	1,175
Net interest cost/(credit)	**108**	(694)
Total included within income statement	**625**	481

Notes to the financial statements *(continued)*

22 Pension commitments *(continued)*

Amounts recorded in the statement of comprehensive income

	2025 £'000	2024 £'000
Actual return less interest on pension scheme assets	**(34,888)**	(21,665)
Experience (losses)/gains arising on scheme liabilities	**(360)**	261
Changes in assumptions on scheme liabilities	**26,020**	3,002
	(9,228)	(18,402)

Analysis of movement in the statement of financial position:

	2025 £'000	2024 £'000
Fair value of plan assets		
At 1 April	**235,073**	255,729
Interest on assets	**11,002**	11,999
Actuarial loss on assets	**(34,888)**	(21,665)
Employer contributions	**496**	2,435
Benefits paid	**(12,254)**	(13,425)
At 31 March	**199,429**	235,073
Present value of benefit obligations		
At 1 April	**237,317**	241,525
Service cost	**119**	818
Incurred expenses	**398**	357
Interest cost	**11,110**	11,305
Experience loss/(gain)	**360**	(261)
Actuarial (gain) – demographics	**(337)**	(223)
Actuarial (gain) – financial	**(25,683)**	(2,779)
Benefits paid	**(12,254)**	(13,425)
At 31 March	**211,030**	237,317
Net (deficit) at 31 March	**(11,601)**	(2,244)

Virgin Media Case

The Company is aware of the 'Virgin Media v NTL Pension Trustees Ltd and others' case and that there is a potential for it to have an impact on the Company's pension schemes. The case affects defined benefit schemes that provided contracted-out benefits before 6 April 2016 based on meeting the reference scheme test. Where scheme rules were amended prior to 6 April 2016, potentially impacting benefits accrued from 6 April 1997 to 6 April 2016, schemes needed the actuary to confirm that the reference scheme test was still being met by providing written confirmation for the purposes of Section 37 of the Pension Schemes Act 1993. In the Virgin Media case the High Court ruled that alterations to the scheme rules were void and ineffective

because of the absence of written actuarial confirmation required under Section 37 of the Pension Schemes Act 1993. The case was appealed and, in a judgement delivered in July 2024, the Court of Appeal upheld the High Court's decision. However, the Company is aware that there is continued uncertainty on various points of detail that were not explored in the Virgin Media case and that a further case was heard in 2025 (judgment for which has not yet been delivered) which may give guidance on issues connected with the Virgin Media case. In addition, on 5 June 2025 the DWP issued a statement confirming that the Government will introduce legislation to give affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic benefit changes met the necessary standards. The potential impact on the Group is therefore not yet known and continues to be assessed.

Notes to the financial statements *(continued)*

23 Subsidiary, and associate and Joint Venture undertakings

All subsidiary, associate and joint venture undertakings for the Company are as listed below:

Company Name	Country	Address	Interest	Direct %
Babcock Rail Ireland Limited	Ireland	Block 1, Harcourt Centre, Harcourt Street, Dublin 2, Ireland	10,000 Ordinary shares	100.0%
FSP (2004) Limited	United Kingdom	8 Stephenson Place, Hamilton International Technology Park, Blantyre, Scotland, G72 0LH	50 Ordinary shares	50.0%
ABC Electrification Limited	United Kingdom	8th Floor, The Place, London, WC1V 7AA	6,530,600 Ordinary B shares	33.3%

24 Contingent liabilities

The Company had previously guaranteed or had joint and several liability for bank facilities that are shared across multiple group companies, these were cancelled in the period to 31 March 2025 (2024: £8.3m).

As previously disclosed, following an internal review, a number of potential errors were identified prior to the financial period end in relation to supplier payments falling within the scope of the Construction Industry Scheme (CIS) and Domestic Reverse Charge (DRC) VAT legislation. These supplies should have been subject, in some cases, to withholding taxes under the CIS and/or DRC schemes, but the appropriate amounts have not been deducted for remittance to HMRC.

Work has now completed, and a quantification of the error has been formed. The Company has established a provision in FY25 in relation to its assessment regarding late payment interest and penalties that could be imposed by HMRC.

A contingent liability still remains in respect of any unpaid tax liability. The Company is seeking to mitigate its liability in respect of these deductions as far as possible through the application of Regulation 9(5) with HMRC. The application of Regulation 9(5) is yet to be determined and the liability associated with any unpaid tax liability is unable to be reasonably determined until it has been applied. Furthermore should a determination of ‘reasonable care’ be established with HMRC then any liability in respect of unpaid tax will cease to remain. Progress and determination is anticipated to be made across the subsequent year.

25 Events after the reporting period

A provision has been recognised in respect of an obligation arising from events that occurred prior to 31 March 2025. The obligation was identified subsequent to the reporting date, and therefore the provision has been recognised as an adjusting event in accordance with IAS 10 Events after the Reporting Period.

Due to the commercially sensitive nature of the matter, detailed information regarding the timing and amount of expected outflows has not been disclosed. The directors consider that such disclosure would seriously prejudice the company’s position.

The provision recognised at year ended 31 March 2025 amounts to £1.4m.

26 Dividends

No dividends were declared and paid (2024: £nil), equivalent to £nil per share (2024: £nil per share). There are no plans for a final dividend.

Notes to the financial statements *(continued)*

27 Guarantees and financial commitments

a) Capital Commitments

At 31 March 2025 the Company had capital commitments of £nil (2024: £nil).

b) Lease Commitments

At 31 March 2025 the Company had lease commitments of £nil for leases not yet commenced (2024: £nil).

28 Immediate and ultimate parent undertakings

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

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

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