

**Evolutionary Rail Limited**

**Company Registration No. 07153323**

**Annual Report and Financial Statements**

**For the year ended 31 March 2023**

THURSDAY



\*ACXENBB7\*

A04

22/02/2024

#225

COMPANIES HOUSE

# **Evolutionary Rail Limited**

## **Annual Report and Financial Statements 2023**

<b>Contents</b>	<b>Page</b>
<b>Officers and professional advisers</b>	<b>1</b>
<b>Directors' report</b>	<b>2</b>
<b>Directors' responsibilities statement</b>	<b>6</b>
<b>Independent auditors' report</b>	<b>7</b>
<b>Profit and loss account</b>	<b>11</b>
<b>Statement of comprehensive income</b>	<b>11</b>
<b>Balance sheet</b>	<b>12</b>
<b>Statement of changes in equity</b>	<b>13</b>
<b>Notes to the financial statements</b>	<b>14</b>

# **Evolutionary Rail Limited**

## **Officers and professional advisers**

### **Directors**

H Clancy (resigned 4 August 2023)  
S Holmes  
S Montgomery  
M Nelson  
D Statham (appointed 24 July 2023)

### **Company secretary**

B Salter

### **Registered Office**

8th Floor, The Point  
37 North Wharf Road  
London  
W2 1AF

### **Independent auditors**

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
3 Forbury Place  
23 Forbury Road  
Reading  
Berkshire  
RG1 3JH

# **Evolutionary Rail Limited**

## **Directors' report**

The directors have pleasure in submitting their annual report and audited financial statements for the year ended 31 March 2023. In preparing the financial statements, the directors have taken the exemption available for small companies in accordance with section 414B of the UK Companies Act, in respect of the requirement to prepare a strategic report.

### **PRINCIPAL ACTIVITIES**

The company provides track-to-train superfast rail-5G technology to rail companies.

### **BUSINESS REVIEW AND FUTURE OUTLOOK**

The company ("evo-rail") is the exclusive provider of rail-5G (mmWave), an innovative, end-to-end managed service communications solution, designed for multigigabit rail customer communications and delivered to train, trackside, station and local communities. The solution benefits a range of stakeholders, including a step change in customer experience, bringing connectivity levels enjoyed at home or in the office to everywhere on the railway. This not only saves cost but improves customer satisfaction, ridership, operational systems, on-train markets/advertising revenue, new media and operational safety opportunities. At a fraction of the cost of mobile 5G and offering guaranteed 100% coverage at 5-100 times the bandwidth, evo-rail's solution is expected to underpin the digital transformation of railways, globally. Its purpose is to deliver gigabit routes to be enjoyed and commercialised by train operators and their customers. The Evo-rail proposition is generating strong interest.

It has been installed on a 300kph railway in Spain, it is soon to be completed on the busiest section of the South Western Railway ("SWR") and will be installed by partners on Caltrain (in California) in the second half of the financial year ending 31 March 2024.

The South Western Railway deployment of "superfast connectivity" will power their wi-fi along 70km of the SWR network between Basingstoke and Earlsfield. These services have been delayed. One of six sections is complete. The network is expected to be fully deployed in the first half of the financial year ending 31 March 2025. The delay has increased the capital costs of the project. An impairment charge of £3,843k (2022: £nil) has been made in relation to this customer contract. This is based on the latest estimate of revenues to be earned from that contract of £10,665k compared to the costs to deliver the contract of £14,508k.

evo-rail is involved in many trials throughout Europe along with further bids and negotiations taking place even further afield.

### **PRINCIPAL RISKS AND UNCERTAINTIES**

The company has a well-established risk management methodology which we use throughout the business to allow us to identify and manage the principal risks which could:

- adversely impact the safety and security of the company's employees, customers and assets;
- have a material impact on the financial or operational performance of the company;
- impede achievement of our strategic objectives and financial targets; and/or
- adversely impact the company's reputation or stakeholder expectations.

The company's principal risks are set out below; these risks have been assessed considering their potential impact (both financial and reputational), the likelihood of occurrence and any change to this compared to the prior year and the residual risk after the implementation of controls.

#### **Economic conditions**

Changing economic conditions affect our business in different ways. A less positive economic outlook could have a negative impact on our business in terms of reduced demand and reduced opportunities for growth. Improving economic conditions may also result in a tightening of labour markets resulting in employee shortages, pressure to increase pay, or affect the availability of public funding for transport services. The same factors could also affect our key suppliers.

To mitigate these risks, we continue to focus on building revenue streams globally and controlling costs to ensure we remain competitive.

# **Evolutionary Rail Limited**

## **Directors' report**

### **PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)**

#### **Data security (including cyber security and GDPR)**

All business sectors are targeted by increasingly sophisticated cyber security attacks. The risk of unauthorised access to, or loss of, data in respect of employees or our customers is growing. A failure to comply with the General Data Protection Regulation (GDPR), which came into force in May 2018, could result in significant penalties and could have an adverse impact on consumer confidence in our business.

We have threat detection systems across our business but continue to remain vigilant to security improvements when identified.

#### **Employee engagement, retention and capability**

The company employed an average of 15 employees during the year. Our employees are critical to the success of our business. Maintaining good relations with employees and investing in their training and development is essential to the efficiency and sustainability of the company's operations. The company's employment policies and remuneration and benefits packages are regularly reviewed and designed to be competitive with other companies, as well as providing employees with fulfilling career opportunities. Employee performance reviews and regular communication of business activities are some of the methods the company uses to understand and respond to employees' needs. Processes are also in place to identify talent and actively manage succession planning throughout the business.

#### **Information technology**

The company relies on information technology in all aspects of its business. Any significant disruption or failure, caused by external factors, denial of service, computer viruses or human error, could result in a service interruption, accident or misappropriation of confidential information. Process failure, security breach or other operational difficulties may also lead to revenue loss. Extensive security controls are in place, which, in conjunction with policy and procedures, are designed to enhance the resilience and security of the company's information technology systems and the data they contain.

The company has made a substantial investment in digital systems to improve the customer and employee experience and assist in driving a lower cost operation through automation.

#### **Political and regulatory issues**

Our business is subject to numerous laws and regulations covering a wide range of matters including health and safety, equipment, employment (including working time, wage and hour, mandatory breaks and holiday pay), competition and anti-trust, data protection and security, bribery and corruption, environment, insurance coverage, consumer protection, and other operational issues. Failure to comply could have financial or reputational implications, could result in increased litigation and claims and have a negative impact on the company. These laws and regulations are constantly subject to change, the impact of which could include increased compliance costs and/or a reduction in operational flexibility and efficiency.

To help mitigate the risk of legislative or regulatory changes the company and FirstGroup plc have embedded operating policies and procedures to ensure compliance with existing legislation and regulation. FirstGroup plc actively engages with the relevant bodies and policy makers to help ensure that we are properly positioned to respond to any proposed changes.

#### **Competition**

The company's main competitors include other mobile telecoms providers to the rail industry. Increased competition can result in lost business, revenue and reduced profitability.

To mitigate this risk the company will focus on service quality, performance and innovation as priorities in making our service attractive to our customers.

### **KEY PERFORMANCE INDICATORS**

The directors consider the pipeline growth to be the key performance indicator. The company is delivering one contract on the South Western Railway and has installations in Northern Spain and the Island Line (Isle of Wight) with a new commercial rollout by Nomad for Caltrain in California. Whilst the pipeline conversion cycle is long, evo-rail has some major opportunities that will be a key success factor over the coming years.

# **Evolutionary Rail Limited**

## **Directors' report**

### **FINANCIAL RISK MANAGEMENT**

The company's principal financial assets are bank balances. The credit risk on liquid funds is limited because the counterparties are banks with a minimum "A" credit rating. The company participates in a notional cash pool arrangement and overdraft facility with its ultimate parent company, FirstGroup plc, and other group companies. The company is not currently exposed to interest rate risk nor foreign exchange risk.

### **FINANCIAL MATTERS**

The results for the year are given in the profit and loss account on page 11. During the year, the company did not declare a dividend (2022: £nil). No final dividend is proposed (2022: £nil).

### **DIRECTORS**

The directors who served during the year and to the approval date of these financial statements are set out below:

Hugh Clancy (resigned 4 August 2023)

Simon Holmes

Stephen Montgomery

Michael Nelson

David Statham (appointed 24 July 2023)

### **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The company's parent company, FirstGroup plc, has made qualifying third-party indemnity provisions for the benefit of the company's directors which were made during the year and remain in force at the date of approval of this report.

### **GOING CONCERN**

At 31 March 2023, the company had a bank balance of £297k (2022: £8,768k), net current liabilities of £9,414k (2022: £4,749k) and net liabilities of £6,924k (2022: £1,490k).

The company directors are required to state whether they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements and identify any material uncertainties to the company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

#### ***Background for going concern***

The company is in its start-up phase having secured one significant customer contract. The company has invested, and continues to invest, in its sales capability. There is considerable pre-sales activity in securing customer contracts.

The company is dependent on support from its parent company to fund the losses incurred in the start-up phase. The South Western Railway customer contract cash flows are phased based on fitment of equipment lineside to the track and fitment of equipment on trains.

The directors used the financial forecasts prepared for business modelling and liquidity purposes as the basis for their assessment of the company's ability to continue as a going concern for the twelve months from the date of the financial statements.

The major assumptions and key areas of judgement incorporated in the modelling included:

- the timing of delivery of the South Western Railway contract;
- the potential impacts on financial and trading performance of customer contract wins; and
- the timing of working capital flows

These financial forecasts assume continued support from FirstGroup plc whilst the business develops after its start-up phase. Given the extent to which current FirstGroup plc support underpins the business during this start-up phase, it was not considered necessary to run alternative stress tests. The company is dependent on its ultimate parent company FirstGroup plc for ongoing financial support. This has been taken into account in the going concern assessment for the company (see below).

# Evolutionary Rail Limited

## Directors' report

### GOING CONCERN (continued)

#### *Significant going concern judgements*

In using these financial forecasts for the going concern assessment, the company directors have made significant judgements in forming assumptions regarding customer contract wins and what impact that will have on the ability of the business to achieve sustained profitability. Many of those judgements are, by their nature, highly subjective and the modelled outcomes depend to a significant degree on those contract wins during the next 12 months. There is therefore a much higher degree of uncertainty than would usually be the case in making the key judgements and assumptions that underpin the financial forecasts.

FirstGroup plc has provided the directors of the company with a letter confirming that it will provide support to the company, such that it is able to meet its obligations for a period of at least 12 months from the date of signing of these financial statements. The directors have made enquiries and understand that the parent company has adequate resources to be able to provide this financial support.

#### *Going concern statement*

Based on their review of the financial forecasts, the support to the company from FirstGroup plc and having regard to the risks and uncertainties to which the company is exposed the company directors believe that the company has adequate resources to continue in operational existence for the 12 month period from the date on which the financial statements were approved. Accordingly, the financial statements have been prepared on a going concern basis.

### AUDIT INFORMATION

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

### INDEPENDENT AUDITORS

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their re-appointment was passed at FirstGroup plc's Annual General Meeting on 21 July 2023.

Approved by the Board of Directors  
and signed on behalf of the Board



Michael Nelson  
Director  
8<sup>th</sup> Floor, The Point, 37 North Wharf Road, London W2 1AF

19 February 2024

## **Evolutionary Rail Limited**

### **Directors' responsibilities statement**

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 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 also 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.

Approved by the Board of Directors  
and signed on behalf of the Board



Michael Nelson  
Director  
8<sup>th</sup> Floor, The Point, 37 North Wharf Road, London W2 1AF

19 February 2024

# Independent auditors' report to the members of Evolutionary Rail Limited

## Report on the audit of the financial statements

### Opinion

In our opinion, Evolutionary Rail Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance sheet as at 31 March 2023; the Profit and loss account, Statement of comprehensive income and Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### Conclusions relating to going concern

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.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

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

# Independent auditors' report to the members of Evolutionary Rail Limited

## Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, 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 audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

## Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 March 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

## Responsibilities for the financial statements and the audit

### Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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.

# Independent auditors' report to the members of Evolutionary Rail Limited

## **Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting manual journal entries to manipulate financial performance. Audit procedures performed by the engagement team included:

- Reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations in relation to revenue;
- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims, litigation, and instances of fraud;
- Challenging assumptions made by management in determining their significant judgements and accounting estimates;
- Reviewing minutes of meetings of the board of directors; and
- Incorporating unpredictable procedures.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

## **Use of this report**

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

# Independent auditors' report to the members of Evolutionary Rail Limited

## Other required reporting

### **Companies Act 2006 exception reporting**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

### **Entitlement to exemptions**

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
19 February 2024

**Evolutionary Rail Limited**  
**Profit and loss account**  
**Year ended 31 March 2023**

	Note	2023 £'000	2022 £'000
Turnover	5	141	521
Operating costs before impairment charge		(3,273)	(2,315)
Impairment charge		(3,843)	-
<b>Operating costs</b>	<b>6</b>	<b>(7,116)</b>	<b>(2,315)</b>
<b>Operating loss</b>		<b>(6,975)</b>	<b>(1,794)</b>
Loss before tax	7	(6,975)	(1,794)
Tax on loss	10	1,541	304
<b>Loss for the financial year</b>		<b>(5,434)</b>	<b>(1,490)</b>

**Statement of Comprehensive Income**  
**For the year ended 31 March 2023**

	2023 £'000	2022 £'000
Loss for the financial year	(5,434)	(1,490)
<b>Total comprehensive expense for the year</b>	<b>(5,434)</b>	<b>(1,490)</b>

**Evolutionary Rail Limited**  
**Balance sheet**  
**As at 31 March 2023**

	Note	2023 £'000	2022 £'000
<b>Fixed assets</b>			
Intangible assets	11	92	192
Tangible assets	12	2,543	3,220
		<u>2,635</u>	<u>3,412</u>
<b>Current assets</b>			
Debtors	13	2,885	489
Cash at bank and in hand		297	8,768
		<u>3,182</u>	<u>9,257</u>
<b>Creditors: amounts falling due within one year</b>	14	(12,596)	(14,006)
<b>Net current liabilities</b>		<u>(9,414)</u>	<u>(4,749)</u>
<b>Total assets less current liabilities</b>		(6,779)	(1,337)
<b>Provisions for liabilities</b>	15	(145)	(153)
<b>Net liabilities</b>		<u>(6,924)</u>	<u>(1,490)</u>
<b>Capital and reserves</b>			
Called up share capital	16	-	-
Profit and loss account		(6,924)	(1,490)
<b>Total shareholder's deficit</b>		<u>(6,924)</u>	<u>(1,490)</u>

The notes on pages 14 to 21 form an integral part of these financial statements.

The financial statements of Evolutionary Rail Limited, registered number 07153323, on pages 11 to 21 were approved by the Board of Directors on 19 February 2024.

Signed on behalf of the Board of Directors



Michael Nelson  
Director

**Evolutionary Rail Limited**  
**Statement of changes in equity**  
**For the year ended 31 March 2023**

	<b>Called up share capital £'000</b>	<b>Profit and loss account £'000</b>	<b>Total £'000</b>
<b>Balance at 1 April 2021</b>	-	-	-
Loss and total comprehensive expense for the financial year	-	(1,490)	(1,490)
<b>Balance at 31 March 2022</b>	-	(1,490)	(1,490)
Loss and total comprehensive expense for the financial year	-	(5,434)	(5,434)
<b>Balance at 31 March 2023</b>	-	<b>(6,924)</b>	<b>(6,924)</b>

# **Evolutionary Rail Limited**

## **Notes to the financial statements**

### **Year ended 31 March 2023**

#### **1 General information**

Evolutionary Rail Limited is a private company limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The registered office address is 8<sup>th</sup> Floor, The Point, 37 North Wharf Road, London W2 1AF. The nature of the company's operations and its principal activities are set out in the Directors' report on page 2.

#### **2 Statement of compliance**

The financial statements of Evolutionary Rail Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102') and the Companies Act 2006.

#### **3 Principal accounting policies**

The following accounting policies have been applied consistently throughout the current and preceding year.

##### **(a) Basis of preparation**

These financial statements are prepared on a going concern basis, under the historical cost convention, modified to include certain items at fair value in accordance with FRS 102.

The functional and presentation currency of Evolutionary Rail Limited is considered to be pounds sterling because that is the currency of the primary economic environment in which the company operates.

##### **(b) Going concern**

The company currently meets its day-to-day working capital requirements through its bank balance and support from its ultimate parent, FirstGroup plc. FirstGroup plc has provided the directors of the company with a letter confirming that it will provide support to the company, such that it is able to meet its obligations for a period of at least 12 months from the date of signing of these financial statements. The company's business modelling forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company should be able to operate within the level of its current facilities. After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing its financial statements.

##### **(c) Exemptions for qualifying entities under FRS 102**

The company meets the definition of a qualifying entity under FRS102 and has therefore taken advantage of the disclosure exemptions in relation to share-based payments (Section 26 of FRS102 and paragraphs 26.18(b), 26.19–26.21, 26.23), financial instruments (Sections 11 and 12 of FRS102 and paragraphs 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), 11.48(c), 12.26, 12.27, 12.29(a), 12.29(b) and 12.29A), intra-group transactions (Section 33 of FRS102 paragraph 33.1A), preparation of a cashflow statement (Section 7 of FRS102 and paragraph 3.17(d)) and remuneration of key management personnel (Section 33 of FRS102 and paragraph 33.7) which have been disclosed in FirstGroup plc's financial statements.

The company is included in the consolidated financial statements of FirstGroup plc which can be obtained on request from its registered office 395 King Street, Aberdeen AB24 5RP.

##### **(d) Tangible and intangible fixed assets**

Tangible and intangible fixed assets are stated at cost, net of depreciation/amortisation and any provision for impairment. Depreciation/amortisation is provided to write off the cost less residual value of fixed assets over their estimated useful economic lives:

Other plant and equipment - 3 to 8 years straight-line  
Product licence - 5 years straight-line

Assets under construction are stated at cost. These assets are not depreciated until they are available for use.

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

# **Evolutionary Rail Limited**

## **Notes to the financial statements**

### **Year ended 31 March 2023**

#### **3 Principal accounting policies (continued)**

##### **(e) Impairment of tangible and intangible fixed assets**

At each balance sheet date, the company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the profit and loss account.

##### **(f) Leases and hire purchase**

All leases are operating leases and the rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

##### **(g) Taxation**

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

The taxation liability is reduced wholly or in part by the surrender of losses by group undertakings. The tax benefits arising from group relief are recognised in the financial statements of the surrendering undertaking.

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

##### **(h) Financial assets and liabilities**

All financial assets and liabilities are measured at transaction price (including transaction cost). All the financial assets and liabilities are classified as 'basic' under Section 11 and Section 12 of FRS 102. Instruments classified as 'basic' financial instruments are measured subsequently at amortised cost using the effective interest method.

##### **(i) Impairment of financial assets**

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. All financial assets and liabilities are measured at transaction price (including transaction cost) and subsequently at amortised cost. All financial assets and liabilities are measured at transaction price (including transaction cost) and subsequently measured at amortised cost.

##### **(j) Turnover**

Turnover represents the amounts receivable from third party contracts. Turnover is recognised in the period by reference to the stage of completion of the services provided. Turnover is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied net of returns, discounts and rebates allowed by the company and value added taxes.

The whole of the turnover and profit before taxation derive from the company's principal activities in the United Kingdom and Europe. The company has one principal class of business, namely, the supply of superfast rail-5G technology.

# **Evolutionary Rail Limited** **Notes to the financial statements** **Year ended 31 March 2023**

## **4. Critical accounting judgements and key sources of estimation uncertainty**

In the process of applying the company's accounting policies as described above, management have made no critical accounting judgements.

The key sources of estimation uncertainty in relation to the impairment of assets relate to the revenue and cost forecasts of the SWR contract. This is covered in more detail in note 12.

## **5. Turnover**

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Superfast rail-5G technology	141	521
	<u>141</u>	<u>521</u>

Turnover of £141k (2022: £360k) arose in Spain and £nil (2022: £161k) arose in the United Kingdom.

## **6. Operating costs**

		<b>2023</b>	<b>2022</b>
		<b>£'000</b>	<b>£'000</b>
Staff costs	Note 8	1,600	1,050
Other external charges		1,573	1,165
Amortisation charge on intangible assets	Note 11	100	100
Impairment charge	Note 12	3,843	-
		<u>7,116</u>	<u>2,315</u>

An impairment charge of £3,843k (2022: £nil) has been made in relation to the South Western Railway customer contract. This is based on the latest estimate of revenues to be earned from that contract of £10,665k compared to the estimated costs to deliver the contract of £14,508k. Further details are provided in note 12.

## **7. Loss before tax**

		<b>2023</b>	<b>2022</b>
		<b>£'000</b>	<b>£'000</b>
Loss before tax is stated after charging:			
Auditors' remuneration for audit of the annual financial statements		20	20
Amortisation charge on intangible assets	Note 11	100	100
Impairment charge	Note 12	3,843	-
Rentals payable under operating leases			
- other operating leases		65	10

## **8. Staff numbers and costs**

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

	<b>2023</b>	<b>2022</b>
	<b>Number</b>	<b>Number</b>
Operations	9	5
Administration	6	7
	<u>15</u>	<u>12</u>

**Evolutionary Rail Limited**  
**Notes to the financial statements**  
**Year ended 31 March 2023**

**8. Staff numbers and costs (continued)**

The aggregate payroll costs of these persons were as follows:

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Wages and salaries	1,320	872
Social security costs	169	101
Other pension costs	111	77
	<u>1,600</u>	<u>1,050</u>
Total staff costs	<u>1,600</u>	<u>1,050</u>

**9. Directors' remuneration**

Three of the directors received remuneration from another group company, First Rail Holdings Limited, in the current and prior years, details of which are disclosed in their financial statements. To the extent they are employed by First Rail Holdings Limited as an employee, their remuneration is included in that companies' wages and salaries. Services provided by those directors are considered incidental to Evolutionary Rail Limited.

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
The remuneration of the other director, the highest paid during the year, was as follows:		
Aggregate emoluments (excluding pension contributions)	197	193
Company pension contributions	31	29
	<u>228</u>	<u>222</u>

**10. Tax on loss**

	<b>2023</b>	<b>2022</b>
	<b>£'000</b>	<b>£'000</b>
Current taxation		
- Group relief receivable	(1,277)	(457)
- Adjustment in respect of prior period	(256)	-
	<u>(1,533)</u>	<u>(457)</u>
Deferred taxation		
- Origination and reversal of timing differences	(252)	153
- Adjustment in respect of prior period	244	-
	<u>(8)</u>	<u>153</u>
	<u>(1,541)</u>	<u>(304)</u>
Total tax credit	<u>(1,541)</u>	<u>(304)</u>

The standard rate of taxation for the year, based on the UK standard rate of corporation tax, is 19% (2022: 19%).

From 1 April 2023 the corporation tax rate increased to 25%. Deferred tax has been provided for at 25%.

**Evolutionary Rail Limited**  
**Notes to the financial statements**  
**Year ended 31 March 2023**

**10. Tax on loss (continued)**

The tax credit for the current year differed from the standard rate for the reasons set out in the following reconciliation:

	2023 £'000	2022 £'000
Loss before tax	(6,975)	(1,794)
Loss before tax multiplied by the standard rate of Corporation Tax in the UK of 19% (2022: 19%)	(1,325)	(341)
- Permanent difference in relation to super deduction	(144)	-
- Impact of rate change on current year movements in deferred tax	(60)	37
- Adjustment in respect of prior period	(12)	-
Total tax credit	<u>(1,541)</u>	<u>(304)</u>

**11. Intangible assets**

	Product licence 2023 £'000	Product licence 2022 £'000
<b>Cost</b>		
At 1 April	292	-
Additions	-	292
At 31 March	<u>292</u>	<u>292</u>
<b>Accumulated amortisation</b>		
At 1 April	100	-
Charge for year	100	100
At 31 March	<u>200</u>	<u>100</u>
<b>Net book value</b>		
At 31 March	<u>92</u>	<u>192</u>

The remaining amortisation period for the product licence is one year.

**12. Tangible assets**

	Other plant and equipment 2023 £'000	Other plant and equipment 2022 £'000
<b>Cost</b>		
At 1 April	3,220	-
Additions	3,166	3,220
At 31 March	<u>6,386</u>	<u>3,220</u>
<b>Accumulated depreciation</b>		
At 1 April	-	-
Charge for year	-	-
Impairment (see note 6)	3,843	-
At 31 March	<u>3,843</u>	<u>-</u>
<b>Net book value</b>		
At 31 March	<u>2,543</u>	<u>3,220</u>

Other plant and equipment is in the course of construction and represents the costs incurred to date in the installation of the rail-5G network for the South Western Railway contract.

# Evolutionary Rail Limited

## Notes to the financial statements

### Year ended 31 March 2023

#### 12. Tangible assets (continued)

An impairment charge of £3,843k (2022: £nil) has been made in relation to this customer contract. This is based on the latest estimate of revenues to be earned from that contract of £10,665k compared to the costs to deliver the contract of £14,508k. These estimates assume services to SWR start in the first half of the year ending 31 March 2025 and continue to May 2025, the current contract expiry date for the SWR national rail contract with the DfT. The estimated revenues are reasonably certain as they are based on contracted prices with SWR. The main cause of the impairment charge has been the additional costs in the installation of the rail-5G network, in particular, the installation of the trackside network masts and associated cabling. Should there be a further 10% increase in the installation costs of the trackside network masts and associated cabling, then the impairment would increase by circa £600k.

#### 13. Debtors

	2023	2022
	£'000	£'000
Falling due within one year:		
Trade debtors	141	-
Amounts owed by group undertakings	1,519	457
Prepayments and accrued income	1,225	32
	<u>2,885</u>	<u>489</u>

In the opinion of the directors, the fair value of amounts owed by group undertakings does not differ materially from the carrying value. Amounts owed by group undertakings are unsecured, interest-free and repayable on demand.

#### 14. Creditors: amounts falling due within one year

	2023	2022
	£'000	£'000
Trade creditors	505	42
Amounts owed to group undertakings	7,726	10,773
Taxation and social security	122	1,611
Other creditors	3	33
Accruals and deferred income	4,240	1,547
	<u>12,596</u>	<u>14,006</u>

In the opinion of the directors, the fair value of amounts owed to group undertakings does not differ materially from the carrying value. Amounts owed to group undertakings are unsecured, interest-free and repayable on demand.

#### 15. Provisions for liabilities

	Deferred tax	Deferred tax
	2023	2022
	£'000	£'000
At 1 April	153	-
(Credited) / debited to the profit and loss account	(8)	153
<b>At 31 March</b>	<u>145</u>	<u>153</u>
The deferred tax liability consists of the following amounts:		
Depreciation in excess of capital allowances	145	153
	<u>145</u>	<u>153</u>

# **Evolutionary Rail Limited** **Notes to the financial statements** **Year ended 31 March 2023**

## **16. Called up share capital**

	2023	2022
	£	£
<b>Authorised:</b>		
1 (2022: 1) ordinary share of £1 each	1	1
	<u>1</u>	<u>1</u>
<b>Allotted, called up and fully paid:</b>		
1 (2022: 1) ordinary share of £1 each	1	1
	<u>1</u>	<u>1</u>

The shares carry no right to fixed income nor confer any rights of redemption.

## **17. Capital and other commitments**

At 31 March the company had the following capital commitments:

	2023	2022
	£'000	£'000
Contracts for future capital expenditure not provided in the financial statements: other plant and equipment	5,700	695
	<u>5,700</u>	<u>695</u>

### **Operating leases**

The total of future minimum lease payments under non-cancellable operating leases for each of the following periods are as follows:

	2023		2022	
	Land & Buildings £'000	Other £'000	Land & Buildings £'000	Other £'000
Less than one year	40	-	65	-
	<u>40</u>	<u>-</u>	<u>65</u>	<u>-</u>

### **Other commitments**

The company participates in a notional cash pool arrangement and overdraft facility with its ultimate parent company, FirstGroup plc, and other group companies. The company has jointly and severally guaranteed the liabilities of the other parties under these arrangements.

## **18. Related party transactions**

The company is taking advantage of exemption under FRS102 paragraph 33.1A not to disclose transactions with wholly-owned group companies that are related parties.

During the year the company worked on the installation of the rail-5G network for the South Western Railway contract with First MTR South Western Trains Limited, another group company. First MTR South Western Trains Limited is 70% owned by First Rail Holdings Limited. During the year, the company received milestone payments of £2,128k (2022: £1,268k) from First MTR South Western Trains Limited. Amounts included in deferred income within creditors total £3,396k (2022: £1,268k) as passengers of First MTR South Western Trains Limited are not yet able to use the rail-5G network.

In the prior year (2022) the company received £6,934k from First Trenitalia West Coast Rail Limited; no further money was received during the current year. £6,934k (2022: £6,934k) remains included within creditors. First Trenitalia West Coast Rail Limited is 70% owned by First Rail Holdings Limited. This amount was advanced under a letter agreement and is repayable, net of costs incurred, to First Trenitalia West Coast Rail Limited if a contract is not entered into for the installation of a rail-5G network.

**Evolutionary Rail Limited**  
**Notes to the financial statements**  
**Year ended 31 March 2023**

**19. Ultimate parent company**

The directors regard FirstGroup plc, a company incorporated in the United Kingdom and registered in Scotland, as the ultimate parent and controlling company, which is the smallest and largest group that includes the company's results and for which group financial statements are prepared.

The company's immediate parent company is First Rail Holdings Limited, a company incorporated in the United Kingdom and registered in England and Wales.

Copies of the financial statements of FirstGroup plc can be obtained on request from its registered address: 395 King Street, Aberdeen AB24 5RP.