

COMPANY NUMBER: 02995525

COLAS RAIL LIMITED
DIRECTORS' REPORT AND ACCOUNTS
YEAR ENDED 31 DECEMBER 2016

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Directors

JP Bertrand
F Ermeneux
P Guénolé
C Harrison

Registered office

Dacre House, 19 Dacre Street, London, SW1H 0DJ

Registered number

02995525

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

The Directors present their strategic report for the year ended 31 December 2016.

Principal activity

The principal activities of the Company are to undertake railway design, engineering and major works build contracts and to operate specialised railway engineering plant in the United Kingdom.

Review of the Company's business

During the year, the Company maintained profitability and continued to win significant levels of new work across all parts of its business.

The market for the Company's activities remains robust as demand for rail travel continues to grow, and greater national use of the railway infrastructure to improve sustainability and reduce carbon emissions remains high on the political agenda. The Company is well positioned to serve the UK market during the remainder of the 2014-19 Network Rail funding period and beyond.

The Company continues to seek opportunities to enhance its operations further in support of its mission to become the United Kingdom's leading provider of rail infrastructure services. The financial statements set out the performance and position of the Company for the year ended 31 December 2016 and are shown on pages 6 to 8.

Revenue for the year was £232.2 million, an increase from £230.2 million in 2015.

The profit for the year after tax amounted to £5.3 million (2015: £5.0 million).

Business environment, strategy and principal risks

The Company's activities support the aims and objectives of the wider Bouygues group, which is to create shareholder wealth through the provision of railway engineering services. As a result, details of the business environment and strategy of the Company are contained within the annual report of Bouygues SA, the ultimate parent company.

The Board has ultimate responsibility for risk management. This responsibility encapsulates an understanding of the key risks, recognition and oversight of the measures in place to manage risks and acceptance of the residual risks. Any areas where the Board is uncomfortable with the risk exposure are investigated further, to ensure that either additional controls are implemented to reduce the risk to an acceptable level, or if not possible, that the activities giving rise to the risk are curtailed.

The principal risks faced by the Company are as follows:

- Safety: implementing effective health and safety management systems and working practices;
- Regulatory compliance: complying with applicable laws and regulations;
- Customer reliance: dependence on and volatility of client expenditure in the rail sector;
- Supply chain: managing a logistically complex and diverse national supply chain;
- Project execution: completing contracts to programme requirements;
- Engaged commercial terms: forecasting accurately the financial outturn of contracts; and
- People management: attracting and retaining skilled personnel.

Further information on the impact of these risks and how they are managed can be found in the Bouygues SA annual report.

Key performance indicators

A wide range of key performance indicators are monitored to measure the Company's performance over time. The main indicators are:

- Safety: where indicators show how successful the Company has been in protecting its employees from harm;
- Regulatory compliance: where indicators measure compliance with applicable regulations;
- Supply chain: where indicators measure the number of suppliers and payment performance;
- Engaged commercial terms: where indicators measure the amount of work contracted for future periods; and
- People management: where indicators measure the number of permanent staff.

Safety

The Company is committed to achieving the highest standards of health and safety and regularly reviews the policies and practices in place to ensure that appropriate standards are maintained. In the year ended 31 December 2016, the Company had a fatality and weighted injuries score of 0.058 incidents per million hours worked (2015: 0.126). This compares to an Infrastructure Project Target of 0.158 in 2016 (2015: 0.130).

Regulatory compliance

The Company is committed to full regulatory compliance. In the year ended 31 December 2016 the Company maintained regulatory compliance in the two key areas of Network Rail Principal Contractor status and the Railways and Other Guided Transport Systems (Safety) Regulations 2006.

Supply chain

The Company practices ethical and sustainable procurement in recognition that significant sustainability effects, both positive and negative, can arise from its supply chain activities. Procurement is undertaken within structured guidelines on the sustainability issues that should be considered during supplier selection and ongoing supplier management and engagement. In the year ended 31 December 2016, the Company used 1,053 different suppliers and sub-contractors (2015: 1,030 suppliers and sub-contractors), awarding work to the greatest operational extent possible to participants who operate in the locality of its work.

The Company's policy concerning the payment of trade creditors and other suppliers is to set the terms of payment with major suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment by including the relevant terms in their contracts, and pay all suppliers in accordance with the Company's contractual and legal obligations. The standard payment terms of the Company are 28 days, reflecting its commitment to its industry promise of the Fair Payment Charter.

At the balance sheet date the Company had 95 days (2015: 78 days) of trade and sub-contract purchases outstanding.

Engaged commercial terms

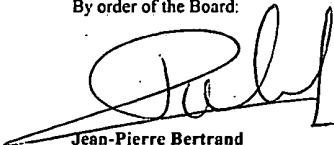
Work contracted for future periods was in line with expectations at 31 December 2016.

People management

The Company is committed to recruiting and retaining the very best individuals in the labour market, and providing a workplace which offers equal opportunity for promotion and advancement to all employees, regardless of gender, colour, ethnicity, religion, sexual orientation or disability.

As part of the Company's equal opportunities policy, procedures are in place that are designed to provide for full and fair consideration and selection of disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles. Details on the number of employees in the Company are given in Note 5.

By order of the Board:



Jean-Pierre Bertrand
CEO
23 November 2017

The Directors present their report and the audited financial statements for the year ended 31 December 2016.

Directors

The Directors who held office during the year and to the date of the signing of these accounts were as follows:

JP Bertrand (resigned 19 May 2016, appointed 28 September 2016)
F Ermenoux (resigned 10 January 2017)
C Evans (resigned 19 May 2016)
R Fostier (resigned 28 September 2016)
P Guénolé (appointed 19 May 2016, resigned 10 January 2017)
C Harrison (appointed 19 May 2016, resigned 01 September 2017)
S Haynes (resigned 19 May 2016)
O Roubicek (resigned 19 May 2016)

The Articles of Association deal with the powers, appointment and replacement of Directors. Under the provisions of its Articles of Association, the Company has granted an indemnity to its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision was in force throughout the financial year and remains in force on the date of the approval of the Directors' report.

Directors receive a significant induction programme and a range of information about the Company when they join the Board. This includes considerable background information on Colas Rail, Board procedures and the Company's codes of business conduct and ethics. In addition, Directors also take part in a series of one-to-one meetings with other members of the Board and senior executives which includes briefings on the Company's business strategy, financial procedures, business development and other key issues.

The training is supplemented throughout the year by a series of internal and external updates, including visits to operating sites to meet local management and to visit Colas Rail projects in the United Kingdom.

Dividend

The Directors do not recommend the payment of a dividend (2015: £nil).

Charitable and political contributions

The Company made £5,000 of charitable donations in the year (2015: £31,000). No political donations were made in either 2016 or 2015.

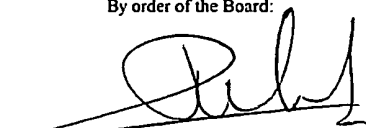
Disclosure of information to auditors

Each of the persons who is a Director at the date of approval of these financial statements confirms that, so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and the Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditors

Pursuant to the Companies Act 2006, the Company is not required to reappoint its auditors annually. KPMG LLP will therefore continue as the auditor of the Company for the year ended 31 December 2017.

By order of the Board:



Jean-Pierre Bertrand
CEO
23 November 2017

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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 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 financial statements have been prepared on the going concern basis. The Company is in a net liabilities position but the Group has provided a letter confirming support for the Company for a period of one year from the signing date of these financial statements. Therefore the Directors have confidence that the entity is a going concern.

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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Colas Rail Limited

We have audited the financial statements of Colas Rail Limited for the year ended 31 December 2016 set out on pages 6 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

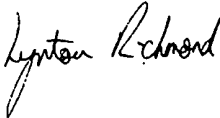
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the requirements of the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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.



Lynton Richmond (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

24th November 2017

COLAS RAIL LIMITED

Statement of comprehensive income for the year ended 31 December 2016


COMPANY NUMBER: 02995525

	Note	2016 £'000	2015 £'000
Revenue	2	232,235	230,159
Cost of sales		(209,824)	(206,131)
Gross profit		22,411	24,028
Administrative expenses		(14,274)	(15,488)
Operating profit	3	8,137	8,540
Profit on sale of non-current assets		-	352
Other income	6	312	57
Finance costs	7	(1,309)	(1,640)
Profit before tax		7,140	7,309
Income tax expense	8	(1,857)	(2,341)
Profit after tax		5,283	4,968
Other comprehensive income:			
Deferred tax charge on revaluation of non-current assets		(13)	-
Actuarial (loss) / gain on Company pension scheme	16	(42,500)	11,500
Deferred tax credit / (charge) on Company pension scheme	8	8,360	(1,900)
Total other comprehensive (expense) / income		(34,153)	9,600
Total comprehensive (expense) / income		(28,870)	14,568

The notes on pages 9 to 17 form an integral part of these financial statements.
The results in the current and prior year derive from continuing activities

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	9	1,410	1,410
Intangible asset	10	446	511
Property, plant and equipment	11	45,501	41,727
Deferred tax asset	8	10,754	4,304
Amounts owed by group undertakings		15,000	5,000
		<u>73,111</u>	<u>52,952</u>
Current assets			
Inventories	12	1,785	1,477
Trade and other receivables	13	49,414	53,303
Cash and cash equivalents		19,456	17,384
		<u>70,655</u>	<u>72,164</u>
Current liabilities			
Trade and other payables	14	(78,066)	(69,242)
Provisions		(125)	(251)
Obligations under finance leases	15	(986)	(864)
		<u>(79,177)</u>	<u>(70,357)</u>
Net current (liabilities) / assets		<u>(8,522)</u>	<u>1,807</u>
Total assets less current liabilities		<u>64,589</u>	<u>54,759</u>
Non-current liabilities			
Obligations under finance leases	15	(312)	(1,219)
Employee benefits	16	(73,100)	(31,300)
		<u>(73,412)</u>	<u>(32,519)</u>
Net (liabilities) / assets		<u>(8,823)</u>	<u>22,240</u>
Equity			
Called up share capital	17	10	10
Revaluation reserve		1,805	1,818
(Accumulated losses) / Retained earnings		(20,638)	10,412
Other distributable reserves		10,000	10,000
Total equity		<u>(8,823)</u>	<u>22,240</u>

Approved by the Board of Directors on 23 November 2017 and signed on its behalf by:


Jean-Pierre Bertrand
CEO

The notes on pages 9 to 17 form an integral part of these financial statements.

COLAS RAIL LIMITED

Statement of changes in equity for the year ended 31 December 2016

COMPANY NUMBER: 02995525

	Called up share capital £'000	Revaluation reserve £'000	Retained earnings / (accumulated losses) £'000	Other distributable reserves £'000	Total equity £'000
At 1 January 2015	10	1,988	(4,326)	10,000	7,672
Profit after tax for the year	-	-	4,968	-	4,968
Actuarial gain on Company pension scheme	-	-	11,500	-	11,500
Deferred tax charge on Company pension scheme	-	-	(1,900)	-	(1,900)
Transfer between reserves	-	(170)	170	-	-
Balance at 31 December 2015	10	1,818	10,412	10,000	22,240
Profit after tax for the year	-	-	5,283	-	5,283
Actuarial loss on Company pension scheme	-	-	(42,500)	-	(42,500)
Deferred tax charge on Company pension scheme	-	-	6,167	-	6,167
Deferred tax charge on revalued assets	-	(13)	-	-	(13)
Balance at 31 December 2016	10	1,805	(20,638)	10,000	(8,823)

The notes on pages 9 to 17 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

Basis of preparation

Colas Rail Limited ("the Company") is a limited company registered in England and Wales and operating in the United Kingdom. The financial statements consolidate those of the Company and its share of interests in joint arrangements.

The financial statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101") and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("EU-IFRS"), but makes amendments where necessary in order to comply with the Companies Act 2006, and has set out below where it has taken advantage of the FRS 101 disclosure exemptions.

Going concern

The financial statements have been prepared on the going concern basis. The Company is in a net liabilities position but the Group has provided a letter confirming support for the Company for a period of one year from the signing date of these financial statements. Therefore the Directors have confidence that the entity is a going concern.

FRS 101

As the consolidated financial statements of Bouygues SA, the ultimate parent company, are prepared according to the full recognition, measurement and disclosure requirements of EU-IFRS, and therefore include the equivalent disclosures, the Company has taken the available exemptions under FRS 101 in respect of the following:

- certain disclosures required by IFRS 7 *Financial Instrument Disclosures*;
- preparation of a cash flow statement and related notes;
- comparative period reconciliations for property, plant and equipment;
- disclosure of related party transactions between wholly-owned members of the same group;
- statement of the Company's objectives, policies and processes for managing capital; and
- disclosure and assessment of the impact of new EU-IFRS that are issued but not yet effective.

Measurement convention

The financial statements of the Company have been prepared in accordance with the historical cost convention, except for the periodic revaluation of land and buildings.

Areas requiring the use of estimates and critical judgment that may impact on the Company's earnings and financial position include:

- Revaluation of freehold buildings and leasehold land and buildings, where the Directors have relied upon external valuations carried out by Matthews & Goodman LLP, a professionally qualified valuer, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors; and
- Calculation of the actuarial position on the Company pension scheme, where the Directors have instructed JLT Benefits Solutions Limited to review the Company's pension valuation in accordance with IAS 19 *Employee Benefits*.

Revenue

Revenue is measured at the fair value of consideration received or receivable for the supply of goods and services, excluding value added tax. As soon as the outcome of a long-term contract can be assessed with reasonable certainty, contract revenue and costs are recognised in the statement of comprehensive income in proportion to the stage of completion of the contract.

The stage of completion of the contract is assessed by reference to surveys of work performed. Where the outcome of a contract cannot be assessed with reasonable certainty, revenue is recognised in proportion to the level of directly attributable contract costs incurred, with any expected loss on a contract being recognised immediately in the statement of comprehensive income.

1 ACCOUNTING POLICIES (continued)

Property, plant and equipment

Plant and equipment is stated at historical cost. Freehold and long leasehold properties are revalued every five years in accordance with IAS 16 *Property, Plant and Equipment*, with any resultant gains or losses being recognised in other comprehensive income. The last revaluation occurred on 30 June 2014. Revaluation of land and buildings is based on the estimated value in use, which is determined by discounting the estimated rental value of property based on comparable market data.

Property, plant and equipment is depreciated at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its anticipated useful life, as follows:

Freehold buildings:	50 years
Leasehold land and buildings:	50 years or the length of the lease if shorter
Plant and equipment:	3 to 20 years

Freehold land and assets under construction are not depreciated.

A transfer is made from the revaluation reserve to retained earnings for any excess depreciation charged to the income statement on revalued property, plant and equipment.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to Colas Rail Limited, as the lessee. All other leases are classified as operating leases.

For a finance lease, an asset and corresponding liability is recognised on the balance sheet. No asset or liability is recognised for an operating lease.

Finance lease assets are recognised at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the statement of comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Company's general policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where a different approach can be shown to be more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where a different approach can be shown to be more representative of the time pattern in which economic benefits from the leased asset are consumed.

Inventories

Inventories are held at the lower of cost and net realisable value.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits with banks and short-term liquid investments.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of past events, and it is probable that the Company will be required to settle the obligation for an amount that can be reliably estimated.

Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised in the statement of comprehensive income as incurred.

Defined benefit pension plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods; the benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA rate corporate bonds that have maturity dates approximating to terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Actuarial gains and losses are recognised as other comprehensive income in the year in which they arise.

1 ACCOUNTING POLICIES (continued)

Taxation

The income tax expense represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all appropriate taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates of tax expected to apply in the period when the liability is settled or the asset realised.

2 REVENUE

The Directors regard the activities of the Company as a single class of business.

	2016 £'000	2015 £'000
Turnover by geographical area:		
United Kingdom	<u>232,235</u>	<u>230,159</u>

3 OPERATING PROFIT

	2016 £'000	2015 £'000
Operating profit is stated after charging:		
Auditor's remuneration	<u>85</u>	<u>87</u>

Auditor's remuneration includes £12,000 (2015: £15,000) borne on behalf of other group companies.

4 DIRECTORS' REMUNERATION

	2016 £'000	2015 £'000
Fees and other emoluments	<u>688</u>	<u>863</u>

The fees and other emoluments of the highest paid Director was £189,000 (2015: £245,000). The Company made pension contributions on this Director's behalf of £nil (2015: £12,000).

5 STAFF COSTS

	2016 £'000	2015 £'000
Wages and salaries	65,460	65,123
Social security costs	7,431	6,837
Other pension costs	<u>5,761</u>	<u>3,551</u>
	<u>78,652</u>	<u>75,511</u>

Defined contribution pension payments made during the year amounted to £2,361,000 (2015: £2,873,000).

	2016	2015
Average number of employees during the year (including Directors):	<u>1,279</u>	<u>1,274</u>

6 OTHER INCOME

	2016 £'000	2015 £'000
Bank interest receivable	12	11
Interest receivable from other group companies	300	46
	<u>312</u>	<u>57</u>

7 FINANCE COSTS

	2016 £'000	2015 £'000
Interest on finance lease	81	122
Bank interest payable and similar charges	28	18
Net interest cost on pension scheme	1,200	1,500
	<u>1,309</u>	<u>1,640</u>

8 TAXATION

	2016 £'000	2015 £'000
Current tax charge	2,152	1,002
Deferred tax (credit) / charge	(295)	1,339
Income tax expense	<u>1,857</u>	<u>2,341</u>

The income tax expense arises as follows:

	2016 £'000	2015 £'000
Profit before tax	<u>7,140</u>	<u>7,309</u>
Taxation at the UK corporation tax rate of 20% (2015: 20.25%)	1,428	1,480
Capital allowances for period in excess of depreciation	444	(328)
Deferred tax computed at different tax rate	(295)	1,339
Expenses not deductible for tax purposes	84	76
Tax losses and other timing differences	(140)	(226)
Adjustment in respect of previous periods	336	-
Income tax expense	<u>1,857</u>	<u>2,341</u>

The Company's recognised deferred tax asset is attributable to the following:

	2016 £'000	2015 £'000
Asset on pension liability	12,427	6,260
Liability on property, plant and equipment	(1,599)	(1,854)
Liability on intangible asset	(74)	(102)
	<u>10,754</u>	<u>4,304</u>

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2016 has been calculated based on these rates.

9 GOODWILL

	2016 £'000	2015 £'000
Cost		
As at 1 January and 31 December	<u>1,800</u>	<u>1,800</u>
Accumulated impairment		
As at 1 January and 31 December	<u>(390)</u>	<u>(390)</u>
Net book value		
As at 31 December	<u>1,410</u>	<u>1,410</u>

9 GOODWILL (continued)

Goodwill is assessed for impairment annually. There were no indicators of impairment identified in 2016 or 2015 which might trigger a write-down of the value of the goodwill.

10 INTANGIBLE ASSET

	2016 £'000	2015 £'000
Cost		
As at 31 December	649	649
Accumulated amortisation		
As at 31 December	(203)	(138)
Net book value		
As at 31 December	446	511

The intangible asset is being amortised on a straight-line basis over ten years. Amortisation is included within cost of sales in the statement of comprehensive income.

11 PROPERTY, PLANT AND EQUIPMENT

	Assets under construction £'000	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost / valuation				
As at 1 January 2016	713	7,788	56,993	65,494
Additions	4,951	-	5,132	10,083
Disposals	-	-	(2,087)	(2,087)
Transfer	(713)	-	713	-
As at 31 December 2016	4,951	7,788	60,751	73,490
Depreciation				
As at 1 January 2016	-	3,408	20,359	23,767
Charge for the year	-	280	6,029	6,309
Disposals	-	-	(2,087)	(2,087)
As at 31 December 2016	-	3,688	24,301	27,989
Net book value				
As at 31 December 2016	4,951	4,100	36,450	45,501
As at 1 January 2016	713	4,380	36,634	41,727

All significant freehold and long leasehold properties were externally valued at 30 June 2014 by Matthews & Goodman LLP, a professionally qualified valuer, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors. The Directors do not believe that this valuation is impaired at the current balance sheet date.

The valuation of land and buildings at historical cost is as follows:

	2016 £'000	2015 £'000
Cost	2,855	2,855
Accumulated depreciation	(881)	(822)
Net book value	1,974	2,033

At 31 December 2016, all assets held under finance leases are included within plant and equipment with a net book value of £3,388,000 (2015: £3,779,000).

12 INVENTORIES

	2016 £'000	2015 £'000
Raw materials	1,785	1,477

13 TRADE AND OTHER RECEIVABLES

	2016 £'000	2015 £'000
Trade receivables	15,910	15,472
Amounts owed by group undertakings	4,644	6,454
Amounts recoverable on contracts	21,202	26,205
Other receivables and prepayments	7,658	5,172
	<u>49,414</u>	<u>53,303</u>

14 TRADE AND OTHER PAYABLES

	2016 £'000	2015 £'000
Trade payables	33,701	27,981
Contract accruals	34,851	35,198
Other accruals and deferred income	4,269	5,142
Taxation and social security	5,176	796
Amounts owed to group undertakings	69	125
	<u>78,066</u>	<u>69,242</u>

15 LEASES

	2016 £'000	2015 £'000
Obligations under finance leases		
Including interest		
Amounts payable under finance leases:		
Within one year	1,025	946
In the second to fifth years inclusive	315	1,260
Less: future finance charges	(42)	(123)
Present value of lease obligations	<u>1,298</u>	<u>2,083</u>
Excluding interest		
Amounts payable under finance leases:		
Within one year	986	864
In the second to fifth years inclusive	312	1,219
Present value of lease obligations	<u>1,298</u>	<u>2,083</u>

No amounts were due after five years as at 31 December 2016 or 31 December 2015.

	2016 £'000	2015 £'000
Operating lease commitments		
Lease payments under operating leases recognised in the statement of comprehensive income for the year	<u>6,595</u>	<u>3,980</u>

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Amounts payable under operating leases:		
Within one year	6,236	3,980
In the second to fifth years inclusive	16,603	12,087
After five years	6,459	10,843
Total operating lease commitments	<u>29,298</u>	<u>26,910</u>

16 EMPLOYEE BENEFITS

The Company operates both a defined benefit pension scheme and a defined contribution scheme for its employees. The defined benefit scheme is a final salary scheme and was closed to new entrants in 2009.

The defined benefit scheme is part of a sectionalised multi-employer industry-wide arrangement, the Railways Pension Scheme, that is run by a trustee company. Each section of the multi-employer scheme is ringfenced; the Company has no liability to members other than those in its own section. The trustees of the scheme are required to act in the best interest of the scheme's beneficiaries. Contribution levels are set following negotiations between the Company, the trustees and scheme members. Current contributions are wholly in respect of accrual of benefits.

The defined benefit scheme received its most recent actuarial valuation at 31 December 2013, and previously at 31 December 2010. The next actuarial valuation is anticipated at 31 December 2017. The net pension liability presented by the Directors at 31 December 2016 is calculated as stated in Note 1 and will next be updated at 31 December 2017.

The key assumptions employed to calculate the defined benefit scheme's liabilities using a projected unit valuation method are as follows:

	2016	2015
Discount rate	2.70% pa	3.90% pa
Inflation	2.40% pa	2.00% pa
Rate of increase in salaries	2.40% pa	2.00% pa
Rate of increase in pension payments	2.40% pa	2.00% pa
Life expectancy at age 65 of a male retiring in 2016 / 2015	22.4 years	22.3 years
Life expectancy at age 65 of a female retiring in 2016 / 2015	24.7 years	24.6 years
Life expectancy at age 65 of a male retiring in 2036 / 2035	24.2 years	24.1 years
Life expectancy at age 65 of a female retiring in 2036 / 2035	26.6 years	26.5 years

The assumptions used by actuaries are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Deficit recognition percentage assumption

The defined benefit pension scheme is a shared cost scheme between the Company and relevant members. The scheme is designed to share both future service and any deficit reducing contributions between the Company and the relevant members.

The Directors note that the burden of the deficit could make the members decide that meeting their share of the deficit contribution was unaffordable. In such circumstances that all members chose to leave the defined benefit pension scheme, the burden of the deficit would pass in its entirety to the Company.

In forming their view for the balance sheet date on the most likely outcome and in the light of the latest actuarial valuation, the Directors consider that the members may come to this view and hence the Company recognises the liability of the defined benefit pension scheme in its entirety on its balance sheet.

Discount rate

An annual discount rate of 2.70% has been adopted based on the AA bond index yield as an appropriate discount rate. As at 31 December 2016, the pattern on yields varied for individual stocks, making a quantitative difference. The Directors consider the rate adopted to be well within an acceptable market range.

Inflation

An annual inflation assumption of 2.40% has been employed.

On 8 July 2010, the Government announced that it was to move to using the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) as the measure for determining the inflation increases to be applied in the defined benefit pension scheme calculations. This decision flows directly into the Colas Rail section of the Railways Pension Scheme and the Directors have reduced their scheme inflation expectations accordingly.

Rate of increase in salaries

A rate of 2.40% per annum is assumed based on market information, the Company's experience of the core inflation assumption over the past three years and its projections for the coming years. An agreement was made with members and trustees during the December 2010 actuarial valuation to cap future salary increases at CPI.

Rate of increase of pensions in payment

A rate of increase of pensions in payment of 2.40% is assumed based on inflationary expectations, which takes into account the Government's decision to adopt CPI as the relevant index for the defined benefit pension scheme.

Life expectancy

The mortality assumptions adopted at 31 December 2016 are in line with those used in CMI_2013, an updated version of the Mortality Projections Model published in September 2013 by the Continuous Mortality Investigation ("CMI").

16 EMPLOYEE BENEFITS (continued)

The fair value of the defined benefit pension scheme's assets (which are not intended to be realised in the short-term, and may be subject to significant change before they are realised), the long-term expected rates of return on these assets, and the present value of the scheme's liabilities (which are derived from cash flow projections over long periods and thus inherently uncertain) were as follows:

	Value as at 31 December 2016	Value as at 31 December 2015
	£'000	£'000
Equities	109,400	89,800
Bonds	55,800	53,700
Property	9,800	10,500
Cash	1,000	800
Total fair value of scheme assets	176,000	154,800
Present value of scheme liabilities	(249,100)	(186,100)
Net pension liability	(73,100)	(31,300)

The scheme assets are diversified into a number of high quality, quoted and non-quoted assets spanning growth, infrastructure, private equity and government bond sectors.

None of the fair values of the assets shown above include any direct investments in the Company's own financial instruments or any property occupied by, or other assets used by, the Company.

The movement in the scheme assets during the year is as follows:

	2016 £'000	2015 £'000
Fair value of scheme assets at start of period	154,800	150,300
Interest income	6,000	5,400
Return on scheme assets (excluding amounts recognised in interest income)	15,500	4,000
Contributions by the Company	3,400	1,600
Contributions by plan participants	1,400	1,100
Benefits paid and expenses	(5,100)	(7,600)
Fair value of scheme assets at end of period	176,000	154,800

The movement in the present value of the defined benefit obligation during the year is as follows:

	2016 £'000	2015 £'000
Defined benefit obligation at start of period	186,100	191,100
Current service cost	1,100	1,600
Expenses	400	500
Interest expense	7,200	6,900
Contributions by plan participants	1,400	1,100
Actuarial losses due to scheme experience	-	100
Actuarial gains due to changes in demographic assumptions	-	-
Actuarial losses / (gains) due to changes in financial assumptions	58,000	(7,600)
Benefits paid and expenses	(5,100)	(7,600)
Defined benefit obligation at end of period	249,100	186,100

16 EMPLOYEE BENEFITS (continued)

The total gain / (loss) recognised in other comprehensive income is as follows:

	2016 £'000	2015 £'000
Return on scheme assets (excluding amounts recognised in interest income)	15,500	4,000
Actuarial losses due to scheme experience	-	(100)
Actuarial gains due to changes in demographic assumptions	-	-
Actuarial gains / (losses) due to changes in financial assumptions	(58,000)	7,600
	<u>(42,500)</u>	<u>11,500</u>

The Company has concluded that it is not necessary to make any adjustments to these figures in respect of an asset ceiling or Minimum Funding Requirement as at 31 December 2016.

There have been no scheme amendments, curtailments or settlements in the period.

There are no asset-liability matching strategies currently being used by the scheme.

The best estimate of contributions to be paid by the Company to the scheme for the period ending 31 December 2017 is £3,444,000.

An analysis of the sensitivity to the principal assumptions of the present value of the defined benefit obligation is as follows:

Assumption	Change in assumption	Change in liability
Discount rate	Decrease of 0.25% pa	Increase by 4.6%
Rate of inflation	Increase of 0.25% pa	Increase by 4.6%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 2.9%

The sensitivities above are approximate. Each sensitivity considers one change in isolation. The inflation sensitivity includes the impact of changes to the assumptions for revaluation, pension increases and salary growth.

The average duration of the defined benefit obligation at the end of the period ended 31 December 2016 is 18 years.

17 CALLED UP SHARE CAPITAL

	2016 £'000	2015 £'000
Authorised:		
15,000,000 ordinary shares of £1 each	<u>15,000</u>	<u>15,000</u>
Allotted, called up and fully paid:		
10,000 ordinary shares of £1 each	<u>10</u>	<u>10</u>

18 CAPITAL COMMITMENTS

The Company has committed to £22.7 million of capital expenditure related to property, plant and equipment at 31 December 2016 (2015: £nil), but as the related assets have not been received as at the balance sheet date, no liability is recognised in the financial statements.

19 IMMEDIATE AND ULTIMATE PARENT COMPANY

At the balance sheet date and on the date of approval of the financial statements, the immediate parent company was Colas Rail Holdings Limited, a company which is registered in England and Wales and operates in the United Kingdom. Colas Rail Limited is a wholly owned subsidiary of Colas Rail Holdings Limited.

The ultimate parent company at the balance sheet date and on the date of approval of the financial statements is Bouygues SA, a company which is registered and operates in France. Copies of the ultimate parent company's consolidated financial statements may be obtained from Bouygues SA, 32 Avenue Hoche, 75008 Paris.

The largest group in which the results of the Company are consolidated is that headed by Bouygues SA. The smallest group in which they are consolidated is that headed by Colas Rail SA, a company which is registered and operates in France.