COMPANY NUMBER: 02995525

COLAS RAIL LIMITED

ANNUAL REPORT

YEAR ENDED 31 DECEMBER 2018

CONTENTS

Directors

JP Bertrand
F Grass
G Oriol

Registered office

25 Victoria Street, London, SW1H 0DJ

Registered number

02995525

Auditors

Mazars LLP
Tower Bridge House
St Katharine's Way
London
E1W 1DD
United Kingdom

The Directors present their strategic report for the year ended 31 December 2018.

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 increased 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 2019-24 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 2018.

Revenue for the year was £265.2 million, compared to £268.0 million in 2017.

The profit for the year after tax amounted to £8.2 million (2017: £7.0 million).

Plant and Equipment has been restated by component and Property balances previously included within Plant and Equipment have been reclassified to Freehold and Leasehold Land and Buildings.

All significant freehold and long leasehold properties were externally valued in August 2019 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 believe that this provides a good indication of the valuation of the assets and have used this in making their assessment of the fair value at 31 December 2018. As a result, 2018 opening balances have been restated to recognise the effect of the change in value since the last valuation in 2014.

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.

The uncertainty around Brexit has become a stimulus for wider investment in transport infrastructure in the UK. This is expected to bring additional business opportunities to Colas Rail Limited.

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

Future developments
The Company is committed to be seen as a rail industry leader on safety and sustainability issues. Colas Rail Limited has the prime objective to cause no harm to people or to the environment and is fully committed to continue improvement towards this goal through innovation and its robust management system and processes.

For the next five years the Company has secured three major contracts with Network Rail: a Rail Systems Alliance contract, a signalling and Telecoms Framework contract and a Rail Haulage contract. These new contracts will play a key role improving the network's performance and reliability for both users and freight.

The Directors do not expect any significant changes to the principal activities of the Company in the foreseeable future.

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. Policies and practices in place are regularly reviewed to ensure that appropriate standards are maintained. In the year ended 31 December 2018, the Company had a fatality and weighted injuries score of 0.053 incidents per million hours worked (2017: 0.152).

Regulatory compliance
The Company is committed to full regulatory compliance. In the year ended 31 December 2018 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. Procurement is undertaken within structured guidelines on the sustainability issues that should be considered during supplier selection, ongoing supplier management and engagement. In the year ended 31 December 2018, the Company used 1,420 different suppliers and sub-contractors (2017: 1,008 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 40 days (2017: 66 days) of trade and sub-contract purchases outstanding.

Engaged commercial terms
Work contracted for future periods was in line with expectations at 31 December 2018.

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 designed to provide full and fair consideration and selection of disabled applicants. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them. Wherever possible adjustments to their work content and environment are made by retraining them to undertake new roles.

Details on the number of employees in the Company are given in Note 7.

On behalf of the Board:

Jean-Pierre Bertrand
CEO
22 November 2019

The Directors present their report and the audited financial statements for the year ended 31 December 2018.

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

JP Bertrand
F Grass
G Oriol

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 (2017: £nil).

Charitable and political contributions
The Company made £6,950 of charitable donations in the year (2017: £3,000). No political donations were made in either 2018 or 2017.

Disclosure in the Strategic Report
As permitted by paragraph 1A of schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, certain matters which are required to be disclosed in the Director's Report have been omitted as they are included in the Strategic Report on page 1. These maters relate to the principal activity of the business and the review of the business and future developments.

Disclosure of information to auditor
Each of the persons who are Directors at the date of approval of this Directors' report confirms that:
• so far as that Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
• that Director has taken all steps that ought to have been taken as Director in order to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor
Pursuant to the Companies Act 2006, the Company is not required to reappoint its auditor annually.

On behalf of the Board:

Jean-Pierre Bertrand
CEO
22 November 2019

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law 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 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 a 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.

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

Opinion
We have audited the financial statements of Colas Rail Limited (the 'Company') for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

• give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its profit for the year then ended;
• have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
• have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of uncertainties due to United Kingdom exiting the European Union on our audit
The Directors' view on the impact of Brexit is disclosed on page 1.

The terms on which the United Kingdom may withdraw from the European Union are not clear, and it is therefore not currently possible to evaluate all the potential implications to the Company's trade and the wider economy. We considered the impact of Brexit on the Company as part of our audit procedures, applying a standard firm wide approach in response to the uncertainty associated with the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible implications for the Company, and this is particularly the case in relation to Brexit.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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 such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors
As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Use of the audit report
This report is made solely to the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body for our audit work, for this report, or for the opinions we have formed.

William Neale Bussey (Senior Statutory Auditor)
for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
Tower Bridge House
St Katharine's Way
London
E1W 1DD
Date 22 NOVEMBER 2019

Statement of comprehensive income for the year ended 31 December 2018

	Note	2018 £'000	As Restated 2017 £'000
Revenue	4	265,244	268,067
Cost of sales		(244,249)	(242,236)
Gross profit		**20,995**	**25,831**
Administrative expenses		(16,215)	(16,136)
Operating profit	5	**4,780**	**9,695**
Profit on sale of non-current assets	13	7,645	588
Finance income	8	124	96
Finance costs	9	(1,849)	(2,376)
Profit before tax		**10,700**	**8,003**
Income tax expense	10	(2,436)	(972)
Profit after tax		**8,264**	**7,031**
Other comprehensive income:			
Revaluation of non-current assets	13	1,510	733
Deferred tax charge on revaluation of non-current assets	10	(334)	-
Actuarial gain on Company pension scheme	19	21,620	8,800
Deferred tax (charge) on Company pension scheme	10	(3,468)	(1,105)
Total other comprehensive income		**19,328**	**8,428**
Total comprehensive income		**27,592**	**15,459**

The notes on pages 10 to 20 form an integral part of these financial statements.

Statement of financial position as at 31 December 2018

	Note	2018	As Restated 2017
Non-current assets		**£'000**	**£'000**
Goodwill	11	1,410	1,410
Intangible asset	12	316	381
Property, plant and equipment	13	23,975	68,065
Deferred tax asset	10	7,854	11,322
		33,555	81,178
Current assets			
Inventories	14	1,580	1,589
Trade and other receivables	15	90,909	50,578
Cash and cash equivalents		27,390	26,541
		119,879	78,708
Current liabilities			
Trade and other payables	16	(70,669)	(67,190)
Provisions	17	(199)	(729)
Obligations under finance leases	18	-	(391)
Deferred tax liability	10	(672)	(1,627)
		(71,540)	(69,937)
Net current assets		48,339	8,771
Total assets less current liabilities		81,894	89,949
Non-current liabilities			
Obligations under finance leases	18	-	-
Amounts owed to group undertakings		-	(15,847)
Employee benefits	19	(46,200)	(66,000)
		(46,200)	(81,847)
Net assets		**35,694**	**8,102**
Equity			
Called up share capital	20	10	10
Revaluation reserve		4,977	4,004
Retained earnings / (Accumulated losses)		20,707	(5,912)
Other distributable reserves		10,000	10,000
Total equity		**35,694**	**8,102**

Approved by the Board of Directors on 22 November 2019 and signed on its behalf by:

Jean-Pierre Bertrand
CEO

The notes on pages 10 to 20 form an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2018

	Called up share capital £'000	Revaluation reserve £'000	Retained earnings / (accumulated losses) £'000	Other distributable reserves £'000	Total equity £'000
At 1 January 2017	10	1,805	(20,638)	10,000	(8,823)
Prior period adjustment	-	1,466	-	-	1,466
Restated 1 January 2017	**10**	**3,271**	**(20,638)**	**10,000**	**(7,357)**
Profit after tax for the year	-	-	7,031	-	7,031
Actuarial gain on Company pension scheme	-	-	8,800	-	8,800
Deferred tax charge on Company pension scheme	-	-	(1,105)	-	(1,105)
Revaluation of property (restated)	-	733	-	-	733
Restated Balance at 31 December 2017	10	4,004	(5,912)	10,000	8,102
Profit after tax for the year	-	-	8,264	-	8,264
Actuarial gain on Company pension scheme	-	-	21,620	-	21,620
Deferred tax charge on Company pension scheme	-	-	(3,468)	-	(3,468)
Deferred tax charge on asset revaluation	-	(334)	-	-	(334)
Revaluation of property	-	1,510	-	-	1,510
Transfer	-	(203)	203	-	-
Balance at 31 December 2018	10	4,977	20,707	10,000	35,694

The revaluation reserve represents the increase and decrease recorded the changes in fair value of the land and buildings along with the associated deferred tax arising on the revaluations and the transfers to the statement of comprehensive income for excess depreciation to be recognised as an expense.

Retained earnings / (accumulated losses) represents cumulative profits and losses of the Company less dividends paid.

Other distributable reserves represents additional amounts contributed by the parent Company.

The notes on pages 10 to 20 form an integral part of these financial statements.

1 ACCOUNTING POLICIES

Basis of preparation
Colas Rail Limited ("the Company") is a Company limited by shares registered in England and Wales and operating in the United Kingdom. The financial statements aggregate 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.

The financial statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Company operates. The level of rounding used is to the nearest thousand.

Going concern
The financial statements have been prepared on the going concern basis, and no material uncertainties that may cast significant doubt about the ability of the Company to continue as a going concern have been identified by the Directors.

FRS 101
Consolidated financial statements of Bouygues SA, the ultimate parent Company, are prepared according to the full recognition, measurement and disclosure requirements of EU-IFRS. The Company has taken the available exemptions under FRS 101 in respect of the following:

- certain disclosures required by IFRS 7 Financial Instrument Disclosures (paragraph 8(d))
- disclosures required by IFRS 13 Fair Value Measurement (paragraph 8(e))
- the requirement of paragraphs 45(b0 and 46 to 52 of IFRS 2 Share-based Payments;
- 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.

Revenue
Revenue is measured at the fair value of consideration received or receivable for the supply of goods and services, excluding value added tax. Following IFRS 15, revenue is recognised 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.

Revenue and margin from plant and machinery hires is recognise as and when the service is provided.

Impact of IFRS 15 "Revenue from contracts with Customers"

IFRS 15 "Revenue from Contracts with Customers" replaces IAS11 "Construction Contracts and IAS 18 "Revenue".

As part of the implementation of IFRS 15, the Company carried out an analysis of the qualitative and quantitative implications of the IFRS15. The Company analysed a set of contracts that represent material transactions and contract types in each division. The analysis established that most of the construction and service contracts involve a single performance obligation including the gradual transfer of control and recognition of revenue over time. The percentage of completion is determined on a cost basis. Overall, the analysis indicated that the introduction of IFRS 15 has not caused any major or material impact to be recognised.

1 ACCOUNTING POLICIES (continued)

Property, plant and equipment
Plant and equipment is stated at historical cost with the exception of Freehold and long leasehold properties that are held at fair value with a full external valuation undertaken every five years in accordance with IAS 16 *Property, Plant and Equipment*. Any resultant gains or losses are recognised in other comprehensive income. The last revaluation occurred in August 2019. 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

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

Land and assets under construction or development for future operating activities are not depreciated.

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.

Intangible assets
Intangible assets are amortised on a straight-line basis over ten years. Amortisation is included within cost of sales in the statement of comprehensive income.

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 and deposits with banks.

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)

Share based payment

Bouygues SA (the Company's ultimate parent company) operates a share option scheme under which options over shares in Bouygues SA have been granted to certain Company Directors and employees. The Directors do not consider the associated share based payment charge to be material and, as permitted by FRS 101, the Company has applied the disclosure exemptions available in respect of share based payments.

Taxation

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

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 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The estimates and underlying assumptions used in the preparation of these financial statements are reviewed on an ongoing basis.
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 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.

• IFRS 15 "Revenue from Contracts with Customers" replaces IAS11 "Construction Contracts and IAS 18 "Revenue". As part of the implementation of IFRS 15, the Company carried out an analysis of the qualitative and quantitative implications of the IFRS15. The Company analysed a set of contracts that represent material transactions and contract types in each division. The analysis established that most of the construction and service contracts involve a single performance obligation including the gradual transfer of control and recognition of revenue over time. The percentage of completion is determined on a cost basis. Overall, the analysis indicated that the introduction of IFRS 15 has not caused any major or material impact to be recognised.

• Useful economic lives of equipment is determined based on type of asset, existing knowledge of usage and applicable regulatory standards and requirements. Economic lives are reviewed annually to ensure any impairment is appropriately recognised.

3 PRIOR PERIOD ADJUSTMENTS

The following 2017 balances have been restated as described below.

• The analysis of Plant and Equipment by component has been restated and to show Property balances previously that were included within Plant and Equipment within Freehold and Leasehold Land and Buildings, plant or equipment as appropriate.
• Following the valuation of Freehold and Leasehold Land and Buildings in August 2019 by Mathews & Goodman LLP, a professional qualified valuer, 2018 opening balances have been restated to recognise the effect of the change in value since the last valuation in 2014 to December 2017

	Freehold and Leasehold Land and buildings £'000	Plant and Equipment £'000	Plant £'000	Equipment £'000
As at 1 January 2018	6,648	57,022	-	-
Reclassification	805	(57,022)	55,566	651
Revaluation prior to 2017	1,466	-	-	-
Revaluation - 2017	733	-	-	-
As at 1 January 2018 - restated	9,652	-	55,566	651

The impact of depreciation on revaluation and deferred tax in previous years has been considered not material.

• Revaluation Reserve as at 31 December 2017 has been restated to £4,004,000 to recognise the effect of property revaluation of £2,199,000 on prior years balance.

4 REVENUE

The Directors regard the activities of the Company as a single geographical market with all operations in the UK.

	2018 £'000	2017 £'000
Turnover by operating segments:		
Freight and maintenance	95,470	103,594
Construction	169,774	164,473
	265,244	268,067

5 OPERATING PROFIT

	2018 £'000	2017 £'000
Operating profit is stated after charging:		
Amortisation	65	65
Depreciation	7,512	7,938
Operating lease payments	6,651	6,872
Auditor's remuneration - audit services	140	130

Auditor's remuneration includes £32,000 (2017: £23,000) borne on behalf of other group companies.

6 DIRECTORS' REMUNERATION

	2018 £'000	2017 £'000
Fees and other emoluments	379	289

The fees and other emoluments of the highest paid UK Director amounted to £379,000 (2017: £289,000). The Company made pension contributions on this Director's behalf of £nil (2017: £nil). The Company considers that there is no practicable method to accurately allocate a portion of the emoluments the non-UK Directors receive from their respective Group Company employer to the qualifying services they provide to the Company. The Company is also of the opinion any allocation would be immaterial.

7 STAFF COSTS

	2018 £'000	2017 £'000
Wages and salaries	73,125	70,955
Social security costs	8,309	8,019
Other pension costs	4,187	4,323
	85,621	83,297

Defined contribution pension contributions made during the year amounted to £2,730,000 (2017: £2,476,000).

Average number of employees during the year (including Directors):

	2018	2017
Management	220	223
Administration	68	51
Freight and Maintenance	589	696
Construction	402	346
	1,279	1,316

8 FINANCE INCOME

	2018 £'000	2017 £'000
Bank interest receivable	-	1
Interest receivable from other group companies	124	95
	124	96

9 FINANCE COSTS

	2018	2017
	£'000	£'000
Interest on finance lease	3	39
Bank interest payable and similar charges	9	53
Interest payable to other group companies	237	284
Net interest cost on pension scheme	1,600	2,000
	1,849	2,376

10 TAXATION

	2018	2017
	£'000	£'000
Current tax charge	1,534	1,403
Deferred tax credit	473	(46)
Deferred tax adjustment in respect of prior year	(1,761)	-
Current tax adjustment in respect of prior year	2,190	(385)
Income tax expense	2,436	972

The income tax expense arises as follows:

	2018	2017
	£'000	£'000
Profit before tax	10,700	8,003
Taxation at the UK corporation tax rate of 19% (2017: 19.25%)	2,033	1,541
Deferred tax computed at different tax rate	-	(46)
Expenses not deductible for tax purposes	22	18
Tax losses and other timing differences	(29)	(156)
Adjustment to deferred tax credit in respect of previous periods	(1,761)	-
Adjustment to tax charge in respect of previous periods	2,190	(385)
Income tax expense	2,455	972

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

	2018	2017
	£'000	£'000
Asset on pension liability	7,854	11,322
Liability on revalued property	(346)	(12)
Liability on plant and equipment capital allowances	(273)	(1,550)
Liability on intangible asset	(53)	(65)
Deferred tax liability	(672)	(1,627)
	7,182	9,695

UK corporation tax rate decreased from 20% to 19% from April 2017.

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2017 (on 6 September 2017). These included reductions to the main rate, to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

11 GOODWILL

	2018	2017
Cost	£'000	£'000
As at 1 January and 31 December	1,800	1,800
Accumulated impairment		
As at 1 January and 31 December	(390)	(390)
Net book value		
As at 31 December	**1,410**	**1,410**

Goodwill is reviewed annually against a number of indicators including the carrying value of related assets and the financial performance of associated contracts. There were no indicators of impairment identified in 2018 or 2017 which might trigger a write-down of the value of the goodwill.

12 INTANGIBLE ASSET

	2018	2017
Cost	**£'000**	**£'000**
As at 1 January 2018	649	649
Accumulated amortisation		
As at 1 January 2018	(268)	(203)
Charge for the year	(65)	(65)
As at 31 December	(333)	(268)
Net book value as at 31 December 2018	**316**	**381**

The intangible asset relates to sales contracts acquired by the Company. This 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.

13 PROPERTY, PLANT AND EQUIPMENT

	Assets under construction	As Restated Freehold and Leasehold Land and buildings	As Restated Plant	As Restated Equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost / valuation					
As at 1 January 2018 (restated)	2,196	10,573	85,403	2,428	100,600
Additions	1,292	-	-	-	1,292
Disposals	-	-	(49,352)	(16)	(49,368)
Revaluation	-	1,306	-	-	1,306
Transfer of assets	(3,161)	-	2,515	646	-
As at 31 December 2018	**327**	**11,879**	**38,566**	**3,058**	**53,830**
Depreciation					
As at 1 January 2018 (restated)	-	921	29,837	1,777	32,535
Charge for the year	-	236	6,760	516	7,512
Disposals	-	-	(9,979)	(9)	(9,988)
Reversal on revaluation	-	(204)	-	-	(204)
As at 31 December 2018	**-**	**953**	**26,618**	**2,284**	**29,855**
Net book value					
As at 31 December 2018	**327**	**10,926**	**11,948**	**774**	**23,975**
As at 1 January 2018 (restated)	2,196	9,652	55,566	651	68,065

All significant freehold and long leasehold properties were externally valued in August 2019 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 believe that this provides a good indication of the valuation of the assets at 31 December 2018 and have used this in making their assessment of the fair value at 31 December 2018.

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

	2018	As Restated 2017
	£'000	£'000
Cost	7,002	7,002
Accumulated depreciation	(1,555)	(1,365)
Net book value	5,447	5,637

During the year the Company sold assets which realised a profit on disposal of £7,645,000.
Details of the restatement to opening balances are set out in note 3.

At 31 December 2018, the net book value of short leasehold included within Leasehold Land and Buildings was £13,000, (2017: £45,000).

14 INVENTORIES

	2018 £'000	2017 £'000
Raw materials	1,580	1,589

The amount of stock recognised as an expense in the period was £1,674k (2017: £1,815k)

15 TRADE AND OTHER RECEIVABLES

	2018 £'000	2017 £'000
Trade receivables	3,790	19,621
Amounts owed by group undertakings	54,014	91
Amounts recoverable on contracts	20,559	25,559
Other receivables and prepayments	12,546	5,307
	90,909	50,578

Intercompany agreement establishes that any amounts due will be repaid as agreed between the parties from time to time.

16 TRADE AND OTHER PAYABLES

	2018 £'000	2017 £'000
Trade payables	20,583	28,808
Contract accruals	26,834	22,866
Other accruals and deferred income	5,727	4,392
Taxation and social security	12,740	4,562
Amounts owed to group undertakings	4,785	6,562
	70,669	67,190

Intercompany agreement establishes that any amounts due will be repaid as agreed between the parties from time to time.

17 PROVISIONS

	At 1 January 2018 £'000	Amounts utilised £'000	At 31 December 2018 £'000
Reorganisation	604	(530)	**74**
Industrial disease claim provision	125	-	**125**
	729	(530)	**199**

Reorganisation
As part of the end of works in the Wessex Alliance project, the Company had to reorganise its people and resources including the gradual redundancy of 34 staff. At 31 December 2018, the five remaining staff in the project are expected to be made redundant in 2019.

Industrial disease claim provision
Colas Rail Limited is very proud of its safety record, but is aware that its current employees may be exposed to certain substances or conditions that may lead to industrial disease in the future. Therefore a provision is recognised for potential future claims by former workers arising as a result of events or circumstances they encountered while working at Colas Rail Limited or a predecessor company.

18 LEASES

	2018	2017
	£'000	£'000
Obligations under finance leases		
Including interest		
Amounts payable under finance leases:		
Within one year	-	394
In the second to fifth years inclusive	-	-
Less: future finance charges	-	(3)
Present value of lease obligations	-	391
Excluding interest		
Amounts payable under finance leases:		
Within one year	-	391
In the second to fifth years inclusive	-	-
Present value of lease obligations	-	391

No amounts were due after five years as at 31 December 2018 or 31 December 2017.

	2018	2017
	£'000	£'000
Operating lease commitments		
Lease payments recognised in the statement of comprehensive income for the year	6,651	6,872

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:

	2018	2017
	£'000	£'000
Amounts payable under operating leases:		
Within one year	8,649	6,094
In the second to fifth years inclusive	25,887	15,438
After five years	18,177	4,751
Total operating lease commitments	52,713	26,283

19 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 ring-fenced; 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 made in respect of accrual of benefits and a £1.7m annual deficit reduction contribution agreed as part of the 31 December 2013 valuation.

The defined benefit scheme received its most recent actuarial valuation at 31 December 2016, and previously at 31 December 2013. The next triennial actuarial valuation is anticipated for 31 December 2019. The net pension liability presented by the Directors at 31 December 2018 is calculated as stated in Note 1 and will next be updated at 31 December 2019.

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

	2018	2017
Discount rate	2.80% pa	2.50% pa
Inflation	2.35% pa	2.40% pa
Rate of increase in salaries	2.35% pa	2.40% pa
Rate of increase in pension payments	2.35% pa	2.40% pa
Life expectancy at age 65 of a male retiring in 2018 / 2017	21.2 years	22.1 years
Life expectancy at age 65 of a female retiring in 2018 / 2017	23.1 years	23.9 years
Life expectancy at age 65 of a male retiring in 2038 / 2037	22.6 years	23.5 years
Life expectancy at age 65 of a female retiring in 2038 / 2037	24.7 years	25.4 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.

19 EMPLOYEE BENEFITS (continued)

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 2.8% has been adopted, which is a cash flow-weighted single equivalent rate based on a yield curve derived from Bank of America Merrill Lynch's AA corporate bond yield curve. The Directors consider the rate to be well within the acceptable market range.

Inflation
An annual inflation assumption of 2.35% 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 2.35% 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 2.35% 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 2018 are 110% of the standard tables S2PxA and are in line with those used in CMI_2017, an updated version of the Mortality Projections Model published in March 2017 by the Continuous Mortality Investigation ("CMI").

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 2018	Value as at 31 December 2017
	£'000	£'000
Equities	103,500	117,000
Bonds	72,000	60,900
Property	4,800	6,600
Cash	100	800
Total fair value of scheme assets	180,400	185,300
Present value of scheme liabilities	(226,600)	(251,300)
Net pension liability	(46,200)	(66,000)

The scheme assets are diversified into a number of unquoted Railways Pension Trustee Company pool funds which invest in 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:

	2018	2017
	£'000	£'000

19 EMPLOYEE BENEFITS (continued)

Fair value of scheme assets at start of year	185,300	176,000
Interest income	4,600	4,700
Return on scheme assets (excluding amounts recognised in interest income)	(4,900)	8,100
Contributions by the Company	3,000	3,200
Contributions by plan participants	1,100	1,300
Expenses	(400)	(400)
Benefits paid	(8,300)	(7,600)
Fair value of scheme assets at end of year	180,400	185,300

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

	2018 £'000	2017 £'000
Defined benefit obligation at start of year	251,300	249,100
Current service cost	2,800	2,500
Interest expense	6,200	6,700
Contributions by plan participants	1,100	1,300
Actuarial gains due to scheme experience	(11,020)	(2,500)
Actuarial gains due to changes in demographic assumptions	(2,500)	(7,100)
Actuarial (gains) / losses due to changes in financial assumptions	(13,000)	8,900
Benefits paid	(8,300)	(7,600)
Past service cost	20	-
Defined benefit obligation at end of year	226,600	251,300

Defined benefit costs recognised in the Profit and Loss are as follows:	2018 £'000	2017 £'000
Current service cost	2,800	2,500
Past service cost and loss from settlements	20	-
Expenses	400	400
Net interest cost	1,600	2,000
Defined benefit costs recognised in profit or loss	4,820	4,900

The total gain recognised in other comprehensive income is as follows:

	2018 £'000	2017 £'000
Return on scheme assets (excluding amounts recognised in interest income)	(4,900)	8,100
Actuarial gains due to scheme experience	11,020	2,500
Actuarial gains due to changes in demographic assumptions	2,500	7,100
Actuarial losses due to changes in financial assumptions	13,000	(8,900)
	21,620	8,800

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 2018.

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

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 2019 is £2,917,700.

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 0.10% pa	Decrease by 1.5%
Rate of inflation	Increase of 0.10% pa	Increase by 1.6%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.1%

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 year ended 31 December 2018 is 16 years.

20 CALLED UP SHARE CAPITAL

	2018 £'000	2017 £'000
Authorised:		
15,000,000 ordinary shares of £1 each	15,000	15,000
Allotted, called up and fully paid:		
10,000 ordinary shares of £1 each	10	10

Each ordinary share carries a right to one vote per share

21 CAPITAL COMMITMENTS

The Company has a capital expenditure commitment related to the purchase of 4 tampers for €18,084,802 at 31 December 2018. There were no other capital expenditure commitment related to property, plant and equipment at 31 December 2018 (2017: £nil).

22 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.