VolkerRail

VolkerRail Limited

Annual Report and Financial Statements

Registered number 3184313

31 December 2013

Contents

Directors

SJ Cocliff
(Managing Director)

NA Connell
PH Nolan
AR Robertson
VolkerWessels UK Limited
AM Wilkins
MG Woods

Company Secretary

AT West

Auditor

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Registered Office

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

Registered Number

3184313

Principal Bankers

Royal Bank of Scotland plc
135 Bishopsgate
London EC2M 3UR

BNP Paribas Fortis
10 Harewood Avenue
London
NW1 6AA

Trading Offices

Carolina Court
Lakeside
Doncaster
South Yorkshire
DN4 5RA

20-23 Greville Street
Farringdon
London
EC1N 8SS

Dawes Lane
Frodingham
Scunthorpe
North Lincolnshire
DN15 6UW

Units 4 & 6
J3 Business Park
Car Hill Road
Doncaster
South Yorkshire
DN4 8DE

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

Unit 1 Derwent House
Richmond Business Park
Sidings Court
Doncaster
DN4 5NU

Principal activities

The principal activities of the Company are the engineering construction of all types of track systems together with whole life asset management, maintenance and renewals services for railways, metros and light rail networks

Business review

The financial highlights are as follows

	2013 £000	2012 £000
Revenue	**83,031**	79,844
Gross profit	**11,444**	9,787
Gross profit margin	**13.8%**	12 3%
Profit before tax	**5,839**	2,787
Profit before tax margin	**7.0%**	3 5%
Total assets	**38,396**	60,219
Net assets	**12,110**	7,757
Forward order book	**77,475**	75,007

The company delivered a profit before tax of £5 8m (2012 £2 8m) in the financial year This demonstrates that the actions taken by the business in the last four years can continue to produce positive results The solid foundation that has now been established, underpinned by a consistently solid order book, should ensure that the company has the ability to continue to grow year on year

Company Overview

The company consists of our major multidisciplinary engineering projects, Manchester and Staffordshire Alliance (both jointly controlled operations with our strategic alliance partners) and other alliance and large project works either direct with Network Rail, in partnership with other VolkerWessels UK companies or with other construction companies

Our approach is founded on working in partnership with our clients, with our external partners, and by leveraging the wide range of skills within the VolkerWessels UK group, to deliver high quality infrastructure solutions for the Rail industry

We are now in a strong position and continue to manage risk well, both in the pre-contract approach and during delivery We are being well received by our clients and Network Rail in particular and we are attracting a high level of opportunities Investment in the Rail sector continues to be a government priority and we have a good position in the market as one of the few contractors in the UK to hold all of the accreditations for working in the rail environment Whilst our position is robust we recognise that the challenge is continuing to grow the business in a sustainable way in order to take advantage of the growth opportunities that are now being presented

In 2014 the directors expect all areas of the business to perform in line with or better than management expectations in terms of key performance measures including contract awards, profitability and net debt Further positive results for the company will be delivered during the coming year if the company secures a number of the emerging opportunities that are presenting themselves and progress is made in line with management expectations This will see a strengthening of its financial position from 2013

Manchester Metrolink (MPACT MM3 joint venture)

The Manchester Metrolink project has been highly successful for VolkerRail and the performance of this contract during 2013 has exceeded management expectation Almost all of the works are now in maintenance phase with only one element of the works still in the construction phase These works are anticipated to be completed during the first half of 2014 Our relationship with the client and our JV partners remains strong and negotiations are ongoing with our client about potential future opportunities during 2014/2015

Stafford Area Improvement Programme

The SAIP Alliance (Stafford Area Improvement Programme) is progressing well and we are continuing to mobilise and develop the team The current planned works are all progressing well and the Alliance is now working on completing the procurement strategies on certain key areas which is expected to be finalised shortly It is being heavily promoted within the rail industry as being the first true alliance and we are in discussion with Network Rail about what other opportunities may flow from this

Other Major Projects

We continue to develop our working relationship with VolkerFitzpatrick This is demonstrated by our work on the Thameslink project which is being delivered in line with expectations and continues to receive good reviews

We have also received praise for our work on Acton and the client has openly stated that this contract is being viewed as a great success

Forward order book

At 31 December 2013 the Company's secured order book stood at £78 million, which is comparable with 2012 when it stood at £75 million

During the year we completed a further number of milestones on the delivery of the Manchester Tram extension in collaboration with our joint venture partners and our client Other contracts secured at 2012 have been successfully delivered we have secured further contracts to replace these We continue to develop our working relationship with VolkerFitzpatrick and our works with VolkerFitzpatrick on the Thameslink contract plays a major contribution in replacing our secured forward order book as well as the award of the Stafford Area Improvement Programme

In addition, significant focus has been given to tendering activities during 2013 with a number of key opportunities having been identified Of major importance to the company is being able to secure one or more of the Network Rail's Control Period Five (CP5) frameworks which we have identified as well as securing other opportunities

We were also awarded preferred bidder status, along with our Alliance partners, the £660m ECML (East Coast Power Upgrade (Phases 1 and 2) and Transpennine Electrification Project) The award in July 2013 is subject to the final approval of the Project Alliance Agreement

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future (see note 2 4 for further details)

Principal risks and uncertainties

The Company undertakes a rigorous risk management process on every bid undertaken and on every contract secured In addition, the Company works very closely with its clients to ensure that a high level of understanding is achieved to ensure contracts are completed in an efficient manner and to the required quality The principal risks and uncertainties are

- Health and safety to ensure the Company has adequate systems in place to mitigate, as far as possible, the risks inherent in the construction process,

- Personnel the long term success of the Company is dependent on the recruitment, training and retention of the correct personnel This is essential in order to maintain the Company's ability to perform in highly competitive sectors,

- Tendering to match clients' expectations to the correct price,

- Construction to ensure that the appropriate employee skills are available and that suitable quality materials are procured at the correct price,

- Environment construction has a significant effect on the environment, therefore it is essential that the Company's operational impacts are, as far as possible, positive in this regard,

- Information technology to ensure the Company has suitable systems in place so that, as far as possible, information flows throughout the Company and that the risk of system loss is mitigated by appropriate contingency plans, and

- Insurance it is essential that suitable arrangements exist to underpin and support all of the operations and services in which the Company operates

Supply chain management

Supply chain management is an integral part of VolkerRail's commitment to offering our clients a quality service We establish mutually rewarding, on-going relationships with our suppliers and sub-contractors, and today work with many organisations with which we have a long and successful history of co-operation Our supply chain partners are thoroughly assessed against a number of criteria including health & safety performance, design and technical capability, financial strength and ethical working practices

The VolkerWessels UK Group is a signatory to the Prompt Payment Code sponsored by the Department for Business, Innovation & Skills As a signatory we undertake to

a) Pay suppliers on time

- Within the terms agreed at the outset of the contract
- Without attempting to change payment terms retrospectively
- Without changing practice on length of payment for smaller companies on unreasonable grounds

b) Give clear guidance to suppliers

- Providing suppliers with clear and easily accessible guidance on payment procedures
- Ensuring there is a system for dealing with complaints and disputes which is communicated to suppliers
- Advising them promptly if there is any reason why an invoice will not be paid to the agreed terms

c) Encourage good practice

- By requesting that lead suppliers encourage adoption of the code throughout their own supply chains

We also frequently adopt and adhere to contract or client specific fair payment charters

Corporate Social Responsibility (CSR)

Socially responsible behaviour is critical to a sustainable development strategy The Company's overall performance is underpinned by integrating this behaviour into the organisation and upholding good corporate governance The organisational governance of the CSR policy however, extends beyond environmental diligence, community involvement, and the health of our workforce, into fair operating practices and the maintenance of effective employee relations, morale and commitment

We recognise that we have an integral responsibility for all matters of general concern to the society in which we operate and to all of our own, and society's stakeholders This responsibility is demonstrated through our actions and within our comprehensive suite of corporate policies, processes and procedures supported by Directors and Senior Managers Our decision making is linked to ethical values, compliance with legal requirements and our respect for people, communities, charities and the environment

Our primary aim is to be the preferred contractor to our existing clients through delivery of excellence and quality service, and to carefully select new opportunities with clients who we wish to work with who are aligned to our core beliefs and objectives In our aim to supply quality products and services that exceed the requirements of our customers we will establish an environment that supports the production and delivery of high quality products and services, whilst establishing strong relationships with both customers and suppliers who will contribute to improving the quality of what is sold or purchased

We are committed to maintaining high standards in regard to the matters of health, safety, welfare, quality and environmental issues We seek continual improvement through regular reviews, inspections and audit of its activities to develop its various management systems and employees

We believe that the perception and reality of our CSR performance is fundamental to our success

By order of the Board

S J Cocliff
Director
31 March 2014

VolkerRail Limited
Company registered number 3184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

The Directors present their Directors' Report and financial statements for the year ended 31 December 2013

Dividends

The directors do not recommend the payment of a dividend in respect of the current financial year (2012 £6,500,000 / 162 5p per share)

Directors

The Directors who held office during the year and changes since the year end were as follows

SJ Cocliff
NA Connell
PH Nolan
AR Robertson
VolkerWessels UK Limited
AM Wilkins
MG Woods

Employees

The Company is an equal opportunities employer

The culture of the Company ensures that staff are trained to very high standards with each individual's technical and development skills continually being reviewed and enhanced This culture has ensured that the Company has available the management skills to maintain growth underpinned by a robust internal promotion scheme

The Company's policy is to consult and discuss with employees matters likely to affect employees' interests The Company also encourages the involvement of employees in the Company's performance in many ways including its remuneration package

The Company's policy is to recruit disabled workers for those vacancies that they are able to fill All necessary assistance with initial training courses is given Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person Arrangements are made, whenever possible, for retraining employees who become disabled to enable them to perform work identified as appropriate to their aptitude and abilities

Political and charitable contributions

During the year, the Company made charitable donations amounting to £3,975 (2012 £3,251) The Company made no political donations during the year (2012 nil)

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

By order of the Board

S J Cocliff
Director
31 March 2014

VolkerRail Limited
Company registered number 3184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

The directors are responsible for preparing the Strategic Report, 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 IFRSs as adopted by the EU and applicable law

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing 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 they have been prepared in accordance with IFRSs as adopted by the EU, 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 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 VolkerRail Limited

We have audited the financial statements of VolkerRail Limited for the year ended 31st December 2013 set out on pages 12 to 36 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU

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 Directors' Responsibilities Statement set out on page 9, 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 31st December 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the EU, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report, Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

Mike Woodward

Mike Woodward (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

2 APRIL 2014

	Note	2013 £000	2012 £000
Revenue	2,3	**83,031**	79,844
Cost of sales		**(71,587)**	(70,057)
Gross profit		**11,444**	9,787
Administrative expenses		**(5,731)**	(7,138)
Operating profit	4	**5,713**	2,649
Financial income	7	**134**	150
Financial expenses	8	**(8)**	(12)
Profit before tax		**5,839**	2,787
Taxation	9	**(1,486)**	398
Profit for the year		**4,353**	3,185
Profit attributable to equity holders of the parent company		**4,353**	3,185

All results derive from continuing operations

The notes on pages 17 to 36 form an integral part of the financial statements

Statement of Comprehensive Income
for the year ended 31 December 2013

	2013	2012
	£000	£000
Profit for the year	**4,353**	3,185
Dividends	**-**	(6,500)
Total comprehensive income for the year	**4,353**	(3,315)
Total comprehensive income attributable to equity holders of the parent company	**4,353**	(3,315)

The notes on pages 17 to 36 form an integral part of the financial statements

	Note	2013	2012
		£000	£000
Non current assets			
Deferred tax assets	11	1,407	2,779
		1,407	2,779
Current assets			
Trade and other receivables	12	3,320	14,962
Cash and cash equivalents	13	33,669	42,478
		36,989	57,440
Total assets		38,396	60,219
Equity attributable to equity holders of the parent			
Share capital	17	4,000	4,000
Capital contribution reserve		1,400	1,400
Retained earnings		6,710	2,357
Total equity		12,110	7,757
Non current liabilities			
Provisions	15	22	60
		22	60
Current liabilities			
Trade and other payables	14	25,977	52,282
Provisions	15	287	120
		26,264	52,402
Total liabilities		26,286	52,462
Total equity and liabilities		38,396	60,219

These financial statements were approved by the Board of Directors on 31 March 2014 and were signed on its behalf by

SJ Cocliff
Director

Company registered number 3184313

The notes on pages 17 to 36 form an integral part of the financial statements

	Share capital £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2012	4,000	1,400	5,672	11,072
Comprehensive income				
Profit for the year	-	-	3,185	3,185
Dividends	-	-	(6,500)	(6,500)
Balance at 31 December 2012	**4,000**	**1,400**	**2,357**	**7,757**
Balance at 1 January 2013	4,000	1,400	2,357	7,757
Comprehensive income				
Profit for the year	-	-	4,353	4,353
Balance at 31 December 2013	**4,000**	**1,400**	**6,710**	**12,110**

The notes on pages 17 to 36 form an integral part of the financial statements

	Note	2013 £000	2012 £000
Profit for the year		**4,353**	3,185
Adjustments for			
Financial income		**(134)**	(150)
Financial expense		**8**	12
Dividends paid		**-**	(6,500)
Taxation		**1,486**	(398)
		5,713	(3,851)
(Increase) / decrease in trade and other receivables		**3,966**	(1,418)
(Decrease) / increase in trade and other payables		**(20,875)**	6,438
Movement in intercompany		**2,147**	12,217
Increase / (Decrease) in provisions		**129**	(331)
Cash flows from operating activities		**(8,920)**	13,055
Tax paid		**(15)**	(1,173)
Net cash from operating activities		**(8,935)**	11,882
Cash flows from investing activities			
Interest received	7	**134**	135
Net cash from investing activities		**134**	135
Cash flows from financing activities			
Interest Paid	8	**(8)**	(12)
Net cash from financing activities		**(8)**	(12)
Net (decrease) / increase in cash and cash equivalents		**(8,809)**	12,005
Cash and cash equivalents at 1 January		**42,478**	30,473
Cash and cash equivalents at 31 December	13	**33,669**	42,478

The notes on pages 17 to 36 form an integral part of the financial statements

1. General information

The Company is incorporated and domiciled in the UK

2 Accounting policies

2 1 Basis of preparation

These financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs")

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

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements IFRS 13 replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 In accordance with the transitional provisions of IFRS 13, the Company has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures Notwithstanding the above, the change had no significant impact on the measurements of the Company's assets and liabilities

2 2 Measurement convention

The financial statements are prepared on the historical cost basis

2 3 Adopted IFRS not yet applied

The following Adopted IFRSs have been issued but have not been applied in these financial statements Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated

- IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (mandatory for year commencing on or after 1 January 2014)
- IFRS 11 Joint Arrangements and Amendments to IAS 28 (2008) Investments in Associates and Joint Ventures (mandatory for year commencing on or after 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (mandatory for year commencing on or after 1 January 2014)
- Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities' (mandatory for year commencing on or after 1 January 2014)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (mandatory for year commencing on or after 1 January 2014)
- Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (mandatory for year commencing on or after 1 January 2014) The amendments simplify the transition to these new standards and provide additional relief from disclosures

2. Accounting policies (continued)

2 4 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on page 3 to 6 In addition, note 18 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposure to credit risk and liquidity risk

The Company meets its day-to-day working capital requirements through the group treasury management provided by VolkerWessels UK Limited See note 18 (c)

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

2 5 Jointly controlled operations

The Group has entered into a number of Jointly Controlled Operations (JCOs) with different partners for the purposes of undertaking specific contracts Interests in JCOs are accounted for by recognising the Group's share of income and expenses and assets and liabilities measured according to the terms of the arrangements

2 6 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currency (pound sterling) at the foreign exchange rate ruling at the date of the transaction, unless the transaction has been hedged, and in which case the transaction is translated at the contracted foreign exchange rate Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the income statement Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

2 7 Operating leases

Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease

2 8 Employee benefits

Pension plans

The Company operates defined contribution pension schemes A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions and will have no legal or constructive obligation to pay further amounts Obligations for contributions to defined contribution pensions plans are recognised as an expense in the income statement as incurred The assets of the schemes are held separately from those of the Company in independently administered funds

2 Accounting policies (continued)

2 9 Construction contract debtors

Construction contract debtors represent the gross unbilled income for contract work performed to date They are measured at cost plus profit recognised to date (see revenue accounting policy) less a provision for foreseeable losses and less progress billings Cost includes all expenditure related directly to specific projects and an allocation of fixed and variable overheads incurred in the Company's contract activities based on normal operating capacity

Construction contract debtors are presented as part of trade and other receivables in the balance sheet If payments received from customers exceed the income recognised, then the difference is presented as amounts due to customers for contract work in the balance sheet Claims derived from variations on contracts are not recognised until the outcome of the particular claim is certain, except in exceptional circumstances where the principles of the claim have been agreed with the client and the Directors have made a considered assessment of the final outcome

2 10 Impairment excluding inventories and deferred tax assets

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment, a financial asset is considered to be impaired if objective evidence exists that one or more events have had a negative effect on the estimated future cash flows of that asset If any such indication exists, the asset's recoverable amount is estimated

An impairment loss is recognised whenever the carrying amount of any asset or its cash-generating unit exceeds its recoverable amount Impairment losses are recognised in the income statement

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets

The recoverable amount of the Company's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i e the effective interest rate computed at initial recognition of these financial assets) Receivables are not discounted where their duration is less than one year or where the effect of discounting is not material

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised

2. Accounting policies (continued)

2 10 Impairment excluding inventories and deferred tax assets (continued)

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised

2 11 Financial Instruments

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions

a They include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company , and

b Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

2 12 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables

Investments in jointly controlled entities and subsidiaries are carried at cost in the Parent Company accounts

Trade and other receivables are recognised initially at fair value Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses

Trade and other payables are recognised initially at fair value Subsequent to initial recognition they are measured at amortised cost using the effective interest method

Cash and cash equivalents comprise cash balances and call deposits Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses

2. Accounting policies (continued)

2 13 Financing income and expenses

Financing expenses comprise interest payable Financing income comprises interest receivable on funds invested Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method

2 14 Provisions

A provision is recognised on the balance sheet when the Company has a present legal or constructive obligation as a result of a past event that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability

2 15 Taxation

Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years

Deferred tax is provided on temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised

2 16 Revenue

Revenue represents the value of work done in the year and includes work that has in whole or part been subcontracted out All amounts are exclusive of value added tax

Construction contracts
Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably Contract revenue is recognised in the income statement in proportion to the state of completion of the contract Contract expenses are recognised as incurred unless they create an asset related to future contract activity

The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract

Service contract revenues
Revenue from service contracts rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date The stage of completion is assessed by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract

2. Accounting policies (continued)

2 17 Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its Group, the Company considers these to be insurance arrangements and accounts for them as such In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee

3. Revenue

Revenues are comprised as follows

	2013	Restated 2012
	£000	£000
Construction contract revenues	**82,930**	79,636
Service contract revenues	**101**	208
Total revenues	**83,031**	79,844

Revenue on construction contacts in 2013 and 2012 was all earned in the UK

4. Operating Profit

Operating profit is stated after charging

	2013	Restated 2012
	£000	£000
Foreign currency losses	**3**	13
Operating lease charges		
- plant and machinery	**504**	375
- land and buildings	**374**	408
Auditor's remuneration		
- audit of these financial statements	**57**	58
- other services	**1**	2

Car lease commitments and charges are now allocated to the legal entity receiving the charge, prior year restated to be consistent with revised allocation In previous years the allocation was based on the name of the legal entity on the lease

5. Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category was as follows

	2013 No.	Restated 2012 No
Management & administrative	**61**	61
Operational	**134**	121
	195	182

The 2012 comparative staff number disclosure has been restated to show average number of persons instead of closing number of persons

The aggregate payroll costs of these persons were as follows

	2013 £000	2012 £000
Wages and salaries	**9,528**	9,343
Social security costs	**1,077**	1,035
Contributions to defined contribution plans	**856**	782
	11,461	11,160

6. Directors' remuneration

	2013 £000	2012 £000
Emoluments	**658**	613
Social security costs	**81**	75
Contributions to money purchase pension plans	**150**	109
	889	797

Three directors (2012 3) are remunerated through the company, the remainder are remunerated through other VolkerWessels companies

The emoluments of the highest paid Director was £309,000 (2012 £302,000) and company pension contributions of £68,000 (2012 £27,000) were made to a money purchase scheme on his behalf

Retirement benefits are accruing to the following number of directors under

	2013 No.	2012 No
Money purchase schemes	**3**	3

7. Financial income

	2013 £000	2012 £000
Interest income on short-term bank deposits	**112**	135
Other interest	**22**	15
Total financial income	**134**	150

8. Financial expense

	2013 £000	2012 £000
Other interest	**8**	12

9 Taxation

a) Analysis of the tax recognised in the income statement

	2013 £000	2012 £000
Current tax income		
UK corporation tax		
Current year	**30**	-
Adjustments for prior periods	**33**	1,044
Current tax expense	**63**	1,044
Deferred tax income (see note 11)		
Origination and reversal of temporary differences	**1,282**	467
Adjustments for prior periods	**(49)**	(1,880)
Effect of rate change	**190**	(29)
Deferred tax expense / (income)	**1,423**	(1,442)
Total tax expense / (income)	**1,486**	(398)

The adjustments for prior periods have arisen due to a change in the use of tax losses in the wider VolkerWessels group after the VolkerRail Limited financial statements had been signed

9. Taxation (continued)

b) Reconciliation of effective tax rate

The total tax charge for the year is higher (2012 lower) than the standard rate of corporation tax in the UK of 23 25% (2012 24 5%) The differences are explained below

	2013	2012
	£000	£000
Profit for the year	**4,353**	3,185
Total tax expense / (income)	**1,486**	(398)
Profit excluding taxation	**5,839**	2,787
Tax using the UK corporation tax rate of 23 25% (2012 24 5%)	**1,357**	683
Effects of		
Non-deductible expenses	**13**	29
Over provided in prior years	**(16)**	(836)
Effect of research and development tax concession	**(58)**	(245)
Effect of reduction of rate of tax on deferred taxation	**190**	(29)
Total tax expense / (income)	**1,486**	(398)

Factors that may affect current and total tax charges

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013 This will reduce the company's future current tax charge accordingly The deferred tax asset at 31 December 2013 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date

10 Investments

The company has entered into a number of Jointly Controlled Operations ("JCOs") with different partners for the purpose of undertaking specific contracts VolkerRail has recognised the assets that it controls and the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint ventures All JCO balance sheets are taken as at 31 December for each year end The principal JCOs of the company are as follows

Jointly controlled operations

JCO	Principle activities	JCO partner	Address	Ownership % 2013	Ownership % 2012
VR/Skanska (DLR6)	Track Maintenance and Renewals	Skanska Construction UK Limited	1 & 2	**50%**	50%
VR/Skanska (DLR8)	Track Maintenance and Renewals	Skanska Construction UK Limited	1 & 2	**40%**	40%
MPACT (Dublin)	Track Maintenance and Renewals (Dormant)	Laing O'Rourke Ireland Limited	1 & 3	**50%**	50%
MPACT (MM3)	Track Maintenance and Renewals	Laing O'Rourke Infrastructure Limited	1 & 3	**40%**	40%
SAIP Alliance (Stafford)	Signalling, OHLE and Track Renewals	Laing O'Rourke Construction Limited and Atkins Limited	1, 3 & 4	**33.3%**	-

1 Carolina Court
Lakeside
Doncaster
South Yorkshire
DN4 5RA

2 Maple Cross House
Maple Cross
Rickmansworth
Hertfordshire
WD3 9SW

3 Bridge Place 1 & 2
Anchor Boulevard
Admirals Park
Crossways
Dartford
Kent
DA2 6SN

4 Woodcote Grove
Ashley Road
Epsom
Surrey
KT18 5BW

11. Deferred tax assets and liabilities

a) Recognised deferred tax assets and liabilities

Deferred tax assets are attributable to the following

	Assets	
	2013	2012
	£000	£000
Property, plant and equipment	**111**	147
Provisions	**42**	40
Losses	**1,203**	2,592
R&D Tax Credit	**51**	-
Tax assets	**1,407**	2,779

There was no deferred tax liability at 31 December 2013 or 31 December 2012

b) Movement in deferred tax in the year

	1 January 2013	Recognised in income	31 December 2013
	£000	£000	£000
Property, plant and equipment	147	(36)	**111**
Provisions	40	2	**42**
Losses	2,592	(1,389)	**1,203**
R&D Tax Credit	-	51	**51**
	2,779	(1,372)	**1,407**

R&D tax credit included in the deferred tax asset is not disclosed as recognised in income here as it is included in gross profit in accordance with tax legislation

c) Movement in deferred tax in the prior year

	1 January 2012	Recognised in income	31 December 2012
	£000	£000	£000
Property, plant and equipment	-	147	**147**
Provisions	17	23	**40**
Losses	1,320	1,272	**2,592**
	1,337	1,442	**2,779**

12. Trade and other receivables

	2013 £000	2012 £000
Trade receivables	**331**	587
Construction contract debtors	**202**	3,796
Amounts owed by group undertakings	**2,647**	10,457
Prepayments	**6**	122
Corporation tax debtor	**134**	-
	3,320	14,962

At 31 December 2013, aggregated costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £38,740,000(2012 £26,469,000)

At 31 December 2013, trade receivables include retentions of £314,000 (2012 £360,000) relating to construction contracts in progress

13. Cash and cash equivalents

	2013 £000	2012 £000
Cash and cash equivalents	**33,669**	42,478

14. Trade and other payables

	2013 £000	2012 £000
Trade payables	**11,253**	13,750
Amounts owed to group undertakings	**4,043**	9,706
Amounts due to customers for contract work	**2,074**	20,128
Non trade payables and accrued expenses	**8,607**	8,698
	25,977	52,282

15 Provisions

	Onerous lease provision £000	Other Provisions £000	Total £000
Balance at 1 January 2013	68	112	180
Charged to the income statement	(23)	212	189
Released to the income statement	-	(65)	(65)
Unwinding of discounts	5	-	5
Balance at 31 December 2013	**50**	**259**	**309**
Analysis of total provisions at 31 December 2013			
Non-current	**19**	**3**	**22**
Current	**31**	**256**	**287**
	50	**259**	**309**
Analysis of total provisions at 31 December 2012			
Non-current	47	13	60
Current	21	99	120
	68	112	180

Onerous lease provision
The onerous lease provision has been made in respect of the difference between future operating lease rentals payable by the Company and rents receivable from its tenants

Other Provisions include provisions for insurance claims and provision for Long Service Awards

16 Employee benefits

Pension plans

The Company operates a number of pension plans (see note 2 8) The total expense and creditor outstanding relating to these plans was as follows

	Pension charges		Creditor outstanding	
	2013	2012	**2013**	2012
	£000	£000	**£000**	£000
Prudential pension schemes (defined contribution)	**856**	782	**229**	160

17. Share capital

	Number of shares	Ordinary shares £'000
'A' ordinary shares of £1 each	2,000,000	2,000
'B' ordinary shares of £1 each	2,000,000	2,000
At 1 January 2013 and 31 December 2013	**4,000,000**	**4,000**

The 'A' and 'B' ordinary shares rank pari passu but must be issued in equal numbers The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company

18. Financial instruments

a) Fair values of financial instruments

Trade and other receivables
The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material

Trade and other payables
The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material

Cash and cash equivalents
The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date

Interest bearing loans and borrowings
Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date

There is no significant difference between the carrying amount and fair value of any financial instrument for the Company

18. Financial Instruments (continued)

a) Fair values of financial instruments (continued)

The carrying amounts of each class of financial assets and financial liabilities is summarised below

	2013	2012
	£000	£000
Trade and other receivables (see note 12)	**3,314**	14,840
Cash and cash equivalents (see note 13)	**33,669**	42,478
Total financial assets	**36,983**	57,318
Trade and other payables (see note 14)	**(25,977)**	(52,282)
Total financial liabilities	**(25,977)**	(52,282)
Total financial instruments	**11,006**	5,036

b) Credit risk

Financial risk management
Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers

Exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date, namely cash and cash equivalents and trade and other receivables The Company continuously monitors defaults of customers and other counterparties, and incorporate this information into its credit risk controls Where available at reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used The Company's policy is to deal only with creditworthy counterparties

The Company's management considers that all financial assets that are not impaired for each of the reporting dates under review are of good credit quality, including those that are past due An analysis of amounts that are past due but not impaired is shown below None of the Company's financial assets are secured by collateral or other credit enhancements The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with high quality external credit ratings

Exposure to credit risk
The carrying amount of trade and other receivables in financial assets represents the maximum credit exposure which was £3,314,000 at 31 December 2013 (2012 £14,840,000) for the Company The maximum exposure to credit risk for trade receivables at the balance sheet date by business segment and type of customer was as follows

	2013	2012
	£000	£000
Public sector customers	**295**	551
Private sector customers	**36**	36
	331	587

18. Financial Instruments (continued)

b) Credit risk (continued)

Credit quality of financial assets and impairment losses
The ageing of trade receivables at the balance sheet date was as follows

	2013		2012	
	Gross	**Impairment**	Gross	Impairment
	£000	**£000**	£000	£000
Not past due	**12**	**-**	587	-
Past due (0-30 days)	**-**	**-**	-	-
Past due (31-120 days)	**37**	**-**	-	-
More than 120 days	**282**	**-**	-	-
	331	**-**	587	-

Impairment losses are recorded into an allowance account unless the Company is satisfied that no recovery of the amount owing is possible, at that point the amounts considered irrecoverable are written off against the trade receivables directly There were no impairment provisions at 31 December 2013 (2012 £nil)

c) Liquidity risk

Financial risk management
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due Liquidity risk exposure arises for the Company principally from trade and other payables, taxation due, and borrowings The Company monitors working capital and cash flows to ensure liquidity risk is managed A central treasury function in the UK parent company, VolkerWessels UK Limited, covering all UK subsidiaries ensures bank and intercompany borrowings are maintained at appropriate amounts

VolkerWessels UK Limited has access to £25 million of committed revolving credit facilities and £12m of uncommitted overdraft facilities, which are made available to the Company At the balance sheet date, VolkerWessels UK Limited was not required to draw down on these facilities

Contractual maturity of financial liabilities
The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the effect of netting agreements

	Carrying amount	**Contractual cash flows**	**1 year or less**
	£000	**£000**	**£000**
2013			
Trade and other payables (note 14)	**(25,977)**	**(25,977)**	**(25,977)**
2012			
Trade and other payables	(52,282)	(52,282)	(52,282)

18 Financial Instruments (continued)

d) Market risk

Financial risk management
Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the values of its holdings of financial instruments

Exposure to interest rate risk in the Company is principally on bank and cash deposits, and interest bearing borrowings from its UK parent company The Company does not participate in any interest rate hedge or swap arrangements

Profile of interest bearing financial instruments
At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was as follows

	2013	2012
	£000	£000
Variable rate instruments		
Financial assets (note 13)	**33,669**	42,478

A change of 100 basis points in interest would neither increase nor decrease equity (2012 neither increase nor decrease equity) for the Company

19. Operating lease commitments

Non-cancellable operating lease rentals are payable as follows

	2013	Restated 2012
	£000	£000
Land and buildings		
Less than one year	**303**	384
Between one and five years	**381**	625
	684	1,009
Plant and machinery		
Less than one year	**429**	309
Between one and five years	**538**	550
	967	859

During the year the following amounts were recognised in the income statement in respect of operating leases

	2013	Restated 2012
	£000	£000
Land and buildings	**374**	408
Plant and machinery	**504**	375
	878	783

Car lease commitments and charges are now allocated to the legal entity receiving the charge, prior year restated to be consistent with revised allocation In previous years the allocation was based on the name of the legal entity on the lease

20. Contingencies

The Company has contingent liabilities in respect of maintenance agreements on completed contracts, and performance bonds and guarantees that have been entered into in the normal course of business

The Company is party to certain legal proceedings arising in the normal course of business Provisions have been made based on the Directors best estimate of the position of known legal claims, investigations and actions at the year end The Group takes legal and other third party advice as to the likely outcomes of such actions, and no liability or asset is recognised where the Directors consider, based on that advice, that an action is unlikely to succeed, or where the Group cannot make a sufficiently reliable estimate of the potential obligation or benefit

The Company is jointly and severally liable for the debts of 5 unincorporated joint operations (note 10), of which it recognised the assets that it controls and the liabilities that it incurs, the expenses that it incurs and its share of the income that it earns from the sale of goods or services by the joint ventures

21 Related parties

Related party transactions
Transactions between the Company and other related parties are noted below

Compensation of key management
The compensation of key management personnel is as follows

	2012	2011
	£000	£000
Emoluments	**2,194**	1,803
Contributions to money purchase pension plans	**388**	329
	2,582	2,132

This represents compensation in relation to VolkerRail Specialist Businesses Limited and VolkerRail Limited It is not considered practical to split the compensation between the two businesses

21 Related parties (continued)

Related party transactions with group undertakings

Trading amounts owed by undertaking	Parent undertakings	Fellow subsidiary undertakings	Total
	£'000	£'000	£'000
At start of year	**41**	**10,416**	**10,457**
Sales	118	10,681	**10,799**
Receipts	397	(12,240)	**(11,843)**
Net intercompany loan account movements	-	(6,766)	**(6,766)**
At end of year	**556**	**2,091**	**2,647**

Net intercompany loan account movements represents the net total of intercompany transactions through the loan account with VolkerRail Specialist Businesses Limited in respect of treasury activities and costs paid by VolkerRail Limited on behalf of VolkerRail Specialist Businesses Limited and subsequently recharged All other amounts owed by undertakings are derived from trading transactions

Trading amounts owed to undertaking	Parent undertakings	Fellow subsidiary undertakings	Total
	£'000	£'000	£'000
At start of year	**4,633**	**(7,839)**	**(3,206)**
Expenses	(3,999)	(5,116)	**(9,115)**
Payments	(634)	8,912	**8,278**
At end of year	-	**(4,043)**	**(4,043)**

Financing amounts owed to undertaking	Parent undertakings
	£'000
At start of year	**(6,500)**
Drawn down	-
Payments	6,500
At end of year	-

22. Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of VolkerRail Group Limited which is incorporated in England and Wales

The smallest group in which the results of the Company are consolidated is that headed by VolkerRail Group Limited, which is incorporated in England and Wales Copies of its consolidated financial statements may be obtained from its registered office at Hertford Road, Hoddesdon, Hertfordshire, EN11 9BX

The results of the company are included in the consolidated financial statements of both Royal Volker Wessels Stevin N V and its ultimate parent company Storm Investments B V These companies are incorporated in the Netherlands Copies of the published consolidated financial statements may be obtained from its Amersfoort office Podium 9, 3826 PA Amersfoort, P O Box 2767, 3800 GJ Amersfoort, The Netherlands

23. Accounting estimates and judgements

Accounting estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources

Areas requiring estimates that may significantly impact on the Company's earnings and financial position are as follows

Revenue recognition
The Company uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract