



VolkerRail Limited

Annual Report and Financial Statements

Registered number : 03184313

31 December 2016

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VolkerRail Limited

Contents

Company Information	1
Strategic Report	2
Directors' Report	10
Directors' Responsibilities Statement	12
Independent Auditor's Report to the Members of VolkerRail Limited	13
Income Statement	15
Statement of Comprehensive Income	16
Statement of Financial Position	17
Statement of Changes in Equity	18
Cash Flow Statement	19
Notes to the financial statements	20

VolkerRail Limited
Company Information

Directors

S J Cocliff

(Managing Director)

N A Connell

P H Nolan

A R Robertson

A M Wilkins

M G Woods

VolkerWessels UK Limited

Auditor

Deloitte LLP

Chartered Accountants and Statutory Auditor

2 New Street Square

London

EC4A 3BZ

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

Eagre House

Unit 1a, J3 Business Park

Carr Hill Road

Doncaster

South Yorkshire

DN4 8DE

Units 4 & 6

J3 Business Park

Carr Hill Road

Doncaster

South Yorkshire

DN4 8DE

Dawes Lane

Frodingham

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Hertford Road

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EN11 9BX

50 Farringdon Road

Farringdon

London

EC1M 3HE

The Mill

South Hall Street

Off Ordsall Lane

Salford

M5 4TP

4th floor, One Victoria Square

Paradise Street

Birmingham

B1 1BD

5th floor, Washbrook House

Lancastrian Office Centre

Talbot Road

Stretford

M32 0FP

Jubilee House

East Beach

Lytham St Annes

FY8 5FT

Bromsgrove Depot

Stone Court Farm

Sugarbrook Lane

Stoke Pound

Bromsgrove B60 3AU

VolkerRail Limited

Strategic report

for the year ended 31 December 2016

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.

The financial highlights and key performance indicators of the Company are as follows:

	2016 £000	2015 £000
Revenue	79,395	86,159
Gross profit	8,570	7,713
Gross profit margin	10.8%	9.0%
Operating result	4,853	3,774
Operating result margin	6.1%	4.4%
Net cash	28,284	31,821
Net assets	10,158	10,232
Secured order book	66,946	67,192

Non-financial key performance indicators are considered in the Corporate Responsibility section of this report.

The Company saw an increase operating result in 2016 despite a decrease in revenue. Revenues decreased as result of the reduced scale of the Manchester Metrolink and Staffordshire Alliance contracts offset by higher revenues in other Major Projects, particularly the CP5 Panel Framework with Network Rail. Operating result increased in the year due to higher gross profit margins in the majority of contracts. The Company has continued to establish a solid financial position, underpinned by a strong secured order book that should ensure that the Company has the ability to continue to build upon its current position.

After adjusting for a dividend, Net Cash and Net Assets showed a positive movement in the year.

Company Overview and Future Developments

The Company delivers major multidisciplinary engineering projects, including Manchester Metrolink, Staffordshire Alliance, Rail Electrification Alliance (REAL) and East West Rail Phase 2 (EWR2) (all jointly controlled operations with strategic alliance partners) and other large project works including CP5 Panel Frameworks. These projects are delivered either direct to 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 and with our external partners, and on leveraging the wide range of skills within the VolkerWessels UK group, to deliver high quality infrastructure solutions for the Rail industry.

We 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 future focus should be on further developing the business in a sustainable way in order to take advantage of the opportunities that are now being presented.

Manchester Metrolink (MPACT MM3 joint venture)

The Manchester Metrolink Phase 3 project has been highly successful for VolkerRail and all of the works are now in maintenance phase. The successful completion of this element of the overall programme maintained our strong relationship with the client and our JV partners. The SecondCity Crossing and Deansgate-Castlefield works were substantially completed during 2016 and we are in an advanced state of pre-contract negotiations for the Trafford Park Line works.

VolkerRail Limited
Strategic report
for the year ended 31 December 2016

Company Overview and Future Developments (continued)

Rail Electrification Alliance (REAL)

The REAL portfolio of projects continues to progress positively, with three of the 27 substations having now been commissioned and construction has commenced on site on a further four sites. In addition to the first phase of works, a second phase of traction power supply upgrades have been initiated for the section of line between Doncaster and Newcastle. Upon completion of the works, the system provides a more intensive timetable of train services for both the Thameslink and Intercity Express Trains from 2017 and 2019 respectively.

East West Rail Alliance Phase 2

Using the proven ability and strength of the partners and contracting model from Staffordshire Alliance, the EWR2 project is in the development and early design phase. Once construction and commissioning is complete, new passenger and rail freight services will be re-introduced on 67-miles of the previously mothballed Varsity Line (Oxford – Bedford). The scheme also interfaces and integrates with the proposed HS2 route in the Calvert area.

Stafford Area Improvement Programme

The SAIP Alliance (Stafford Area Improvement Programme) programme was substantially completed in May 2016 and the project is currently undertaking recovery works and demobilisation. The project and contracting model has received positive praise from our client, wider industry recognition, and has been presented with a number of awards

Central IP Panel Framework

The contract for the Central IP Panel Framework is a five year agreement to provide enhanced and new railway systems across the LNW Route from Euston to Carlisle. The Client anticipates that this Agreement will be extended for a further five years to 2024, subject to performance against a number of key performance indicators; to date VolkerRail are performing well against the criteria.

Works at Bromsgrove have been completed and received significant praise from our client, for safe and high quality delivery. The largest project within the framework is Preston to Blackpool Electrification, part of Network Rail's North West Electrification Programme, and has recently commenced on site. Introduction of new Electrical train services is scheduled for May 2018.

SSR 4 Line Modernisation (SSR 4LM)

Contracted by Thales, VolkerRail are undertaking the installation of signalling assets and pre commissioning validation works for the 4LM programme. The works are part of the c£1bn upgrade being delivered by Thales for LUL.

Forward order book

At 31 December 2016 the Company's secured order book stood at £66.9m, which is comparable with 2015 when stood at £67.1m.

Contracts secured at the end of 2015 have been successfully delivered and we have secured further contracts to replace these. The contracts signed on EWR2, the Panel framework and the Thales Sub-Surface Resignalling contract for London Underground played a major part in replacing our secured forward order book.

Corporate responsibility

We are committed to maintaining the highest standards of health and safety, sustainability and integrity throughout all our business activities.

Health and safety

Central to our corporate responsibility approach is having a culture where our people consistently demonstrate the right behaviours and apply best practice, especially as it relates to health and safety. We continually strive to prevent work related injuries and the ill health of our employees and anyone associated with our activities, while also improving their wellbeing. We maintain the right culture, combined with effective systems, to deliver quality projects in a safe and sustainable manner.

Well established behavioural programmes have enabled our workforce, employees and supply chain, to actively engage in maintaining a safe working environment; introducing a range of proactive and preventive improvements to how we conduct our operations.

In 2016 we achieved significant, and our most successful, reductions across the range of safety performance indicators. These results reflect our lowest recorded year end safety results and our best safety performance to date, well below industry averages.

Maintaining the mental and physical health of employees is the cornerstone of our occupational health strategy, delivered through a directly employed occupational health team. In addition to health surveillance, we place particular focus on raising awareness and the importance of maintaining good mental health. This includes training for line managers and supervisors on tackling health risks specific to construction while providing any support and guidance required.

Relevant statistics – health and safety

- Accident Frequency Rate (AFR) of 0.11
- Accident Incidence Rate (AIR) of 400
- 42% reduction in our Minor Injury Frequency Rate (IFR)
- 46% reduction in our All Reported Injury Rate (ARI)
- 40% reduction in the total number of incidents
- 13% decrease in hazard / near miss / close call frequency rate, over 2,500 reports raised.
- VolkerWessels UK achieves FORS Silver
- 1 British Safety Council 'International Safety' Awards
- Two RoSPA Gold Medals for Occupational Health & Safety and Management of Road Risk (fifth consecutive year)
- 18 drop-in-clinics conducted by occupational health, with over 235 attendees

Sustainability

Our business strategy seeks to ensure ongoing environmental, social and business sustainability. Construction has a significant effect on the environment we continually strive to be as socially and environmentally responsible as possible, maximising opportunities for enhancement and mitigating adverse impacts on the environment.

Areas of focus:

- Carbon: Reduce our carbon emissions year on year by focusing on resource efficiency across our activities, and seeking carbon reductions within our construction operations by increasing our commitment to lower carbon solutions
- Energy: Continually improve the energy efficiency of our activities, goods and services through a more sustainable use of electricity and fuel. This includes the promotion of alternative specifications and technologies to influence energy efficiency in the structures we design and build, and the use of more energy efficient methods of transportation.
- Biodiversity: We play our part in the prevention of overall habitat and species loss, habitat fragmentation and disturbance by protecting and enhancing the ecosystems affected by our activities
- Waste: Reduce the amount of waste we produce from our activities, with a particular focus on the prevention of construction, demolition and excavation waste sent to landfill
- Water: We commit to eliminating the unnecessary and improper use of water (potable and non-potable) in addition to influencing improved water efficiency of the structures we design and build.

We maintain clearly defined management systems, interfaces and responsibilities that are understood and accepted by all our people and those working with us. It is imperative we maintain a systematic approach to improving business performance in order to achieve our objectives. This includes managing and optimising our activities, to make our processes more effective, more efficient and more capable of adapting to an ever changing business environment.

VolkerRail Limited

Strategic report

for the year ended 31 December 2016

Corporate responsibility (continued)

Relevant statistics - sustainability

- Carbon emissions per employee of 0.18 tCO₂e.
- Planet Mark™ Certificate achieved for continuous improvement in sustainability from Planet First, an international sustainability certification organisation.
- 99.97% of waste diverted from landfill

Integrity

Integrity is of paramount importance – it is one of our core values.

Every one of our employees and those who work closely with us are accountable to this key value. We expect our people to be open and honest, to run our business ethically and to become morally strong. Long term success is dependent on the recruitment, development, wellbeing and retention of exceptional people that share the right core values and culture.

Our decision making is linked to ethical values, compliance with corporate, legislative and other requirements, and we are always prepared to seek further improvements.

We have a zero tolerance attitude towards fraud and unethical behaviour. We consistently maintain effective oversight and scrutiny processes, carried out with independence and impartiality. This is supported by a full suite of policies to ensure that all our activities are conducted to the highest ethical standards.

Giving back to the community

Our offices and sites work actively to become part of the communities in which they work. We respect people and their local environment. Our aim is to add value to our society, inspire others and support colleagues, clients and suppliers in their own efforts to share time, skills and resources in their chosen way.

Our business wide hazard / near-miss / close-call reporting campaign included a £1 donation for every hazard closed, and has led to over £8,600 in donations to Bluebell Wood Hospice over the past five years. As part of our fundraising raising in 2017 we will continue with this partnership along with Volker Wessels UK commencing a new partnership with MacMillan Cancer Support.

We provide careers advice and support to local schools and higher education facilities, to encourage more people into the wide range of careers construction has to offer.

We are also committed to working with established industry-based charities that utilise our expertise as engineers and contractors like the work we do with CRASH in the UK. We also support building projects embarked on by Operation Raleigh in third world countries.

VolkerRail Limited
Strategic report
for the year ended 31 December 2016

Risk management

Risk management is one of the key foundations of our governance and we actively identify and manage our risks in all areas across our business and operations. In particular, we work very closely with our clients at both pre and post contract stages to ensure that risks are understood, managed and clearly apportioned, which is the bedrock of any successful project business. We operate professional and responsible risk management to all financial, commercial, operational and contractual aspects of the delivery of construction projects and oversight of our company.

Health, safety and quality

<i>Risk and Impact</i>	<i>Mitigation</i>
<p>We recognise that we have a duty of care for the health, safety and welfare of our employees and those that may be affected by our activities.</p> <p>The risk is that the nature of our construction activities could cause harm to our employees and other stakeholders through injuries, health implications, damage and financial loss. This in turn can lead to reputational damage and enforcement action.</p>	<ul style="list-style-type: none"> • Culture, policy and strategy established by effective leadership • Clearly defined management systems, registered to ISO and OHSAS standards • Interfaces and responsibilities that are understood and accepted by all • Board level focus on all HSEQ matters • Behavioural programmes and Health and well-being programmes • Corporate governance, Inspection and audit

People, culture and values

<i>Risk and Impact</i>	<i>Mitigation</i>
<p>Our success is dependent on the recruitment, development, wellbeing and retention of our exceptional people who share our core values and culture.</p> <p>The risk is that we are unable to recruit or retain adequate high quality resources to deliver our programmes.</p>	<ul style="list-style-type: none"> • Board level focus on all people matters • Succession Planning to ensure strong talent pipeline • Investment in learning and development and new Learning Management System • Co-ordinated Graduate and Apprenticeship programmes • Senior leadership and development programmes • Employee survey to obtain regular feedback

Pre-construction

<i>Risk and Impact</i>	<i>Mitigation</i>
<p>It is our vision to lead the Industry in our approach to project risk management which starts at the pre-construction stage.</p> <p>Failure to identify, estimate and manage accurately the key risks associated with the project deliverables, programme, price including the impact of inflation, and the contractual terms could result in financial losses.</p>	<ul style="list-style-type: none"> • Systematic review and challenge of the quality of our submissions and pricing • Focused, risk based approach to tendering • Defined delegated authority levels for approving all tenders • Listening to our clients to meet and exceed their expectations in all areas • Ensuring lessons learnt applied through our tender review processes

Engineering and Operational Delivery

<i>Risk and Impact</i>	<i>Mitigation</i>
<p>Successful delivery of our complex engineering and construction projects is dependent on the effective implementation and maintenance of operational and commercial procedures and controls.</p> <p>Failure to deliver projects on time, budget and to an appropriate quality could result in contract disputes and cost overruns which in turn will impact our profitability and reputation.</p>	<ul style="list-style-type: none"> • Recruitment and retention of capable people and supply chain • Procure quality components through sustainable and ethical sourcing • Deliver projects that demonstrate excellence in design and construction • Ensure high quality standards through audit and application of lessons learnt • Appropriate insurance policies in place

VolkerRail Limited
Strategic report
for the year ended 31 December 2016

Risk management (continued)

Environmental		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>We are very aware that construction has a significant effect on the environment and the communities in which we work.</p> <p>Adverse impacts on the environment and breaches of legislation can lead to environmental harm, reputational damage and enforcement action.</p>	<ul style="list-style-type: none"> • Culture, policy and strategy established by effective leadership • Board level focus on all HSEQ matters • Clearly defined management systems, registered to ISO standards • Interfaces and responsibilities that are understood and accepted by all • Behavioural programmes • Inspection and audit 	
Systems and Processes		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>We are dependent on the quality of our processes, controls and systems as well as the continued availability and integrity of IT systems to record and process data.</p> <p>Failure to control, manage and invest in our systems and processes including the IT environment will result in us not meeting the future needs of the business in terms of expected growth, security and innovation.</p>	<ul style="list-style-type: none"> • Continue Investing in systems and processes that enable efficient and effective operations • Clearly defined management systems, interfaces and responsibilities that are understood and accepted by all • Monitor and control all aspects of IT systems access and performance • Appropriate contingency plans to mitigate risk of systems loss 	
Adequacy of Insurance		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>We maintain appropriate insurance programme to mitigate against significant losses in line with general industry practice.</p> <p>Lack of adequate insurance cover could result in potential financial loss or penalties.</p>	<ul style="list-style-type: none"> • Suitable arrangements exist to underpin and support the operations and services • Regular review of our position with our broker and insurers to ensure that the optimum cover is in place 	
Financial risk		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>It is essential to fully understand the financial position of our partners in all of our contractual relationships.</p> <p>Failure of our partners including financial institutions, customers, joint-venture partners and our supply chain could potentially affect short-term cash flows.</p>	<ul style="list-style-type: none"> • Due diligence including credit reviews of our clients, supply chain partners and other stakeholders • Insure credit where appropriate to do so • Procedures to monitor and forecast cash flow • Committed credit facilities to ensure we have adequate cash when required 	
Fraud		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>Our Integrity Policy covers all aspects of ethical behaviour ensuring that all of our employees and supply chain are open and honest, our business ethically and morally strong and each of us is accountable.</p> <p>Damage to the reputation of the business through poor conduct and acts of fraud, bribery, corruption, or anticompetitive behaviour can all adversely impact corporate reputation and financial loss.</p>	<ul style="list-style-type: none"> • Board Level Compliance Officer • Specific preventative and review controls, reviewed regularly by the Board • Zero tolerance attitude towards fraud and unethical behaviour • Integrity clearly stated as one of our core values • Compulsory training programmes for different levels of the organisation 	
Political, market and economic risk		
<i>Risk and Impact</i>		<i>Mitigation</i>
<p>Political, market and economic factors play a significant part in investment decision making for our clients as well as pricing and availability of our supply chain and other partners.</p> <p>Changes in the economic environment, government policy and regulatory developments may impact on the number of new projects in the market, and the cost of delivering those projects, which in turn may impact on the profitability and cash flow of the business.</p>	<ul style="list-style-type: none"> • Key individuals responsible for monitoring changes in legislation to adapt or react appropriately to policy changes. • Regular reviews to ensure that we are not overly exposed to any one aspect of market risk • Actively engage with our industry peers, financial partners, clients and supply chain to ensure that we are aware of, and anticipating, changes in our market and the economy. 	

VolkerRail Limited

Strategic report

for the year ended 31 December 2016

Our People

At VolkerRail, people are critical to our success. We pride ourselves on having a strong culture of commitment, dedication and hard work; demonstrated through the high level of skill and expertise we have as an organisation.

We are passionate about development and enabling growth for everyone at all levels of their experience with us. It is with this in mind that VolkerRail aspires to become a learning organisation and as such we have made a significant investment in development throughout 2016.

Strategically our values align us and inform on how we need to work to achieve success. We have seen our teams become fully integrated and this has influenced the services we provide to our clients.

A clear strategy for people

VolkerRail people have consistently been performing well. To maintain this we are improving all areas related to our staff and their performance. Our strategy therefore focuses on four main drivers – recruitment, employee development, retention and performance.

Developing and retaining our people

We have improved our learning and development processes to build up skills internally and throughout 2016 have increased our investment to maintain this and grow. There is a real business opportunity for us as we make improvements to keep our people professionally trained, skilled and knowledgeable to work successfully in the industry.

In order to encourage the right behaviours and to achieve our priorities, VolkerRail is developing a set of core behavioural competencies. The programme will enable a better way of measuring performance and will ensure that our people are competent to work at all levels. It will identify the key areas to be developed and will ensure our staff are better engaged and encouraged to move forward with their careers. This year, we introduced a new learning management system (LMS) to support this and to provide the tools we need to deliver improved learning and knowledge sharing across all disciplines within our business.

The wide range of disciplines used across all VolkerWessels UK businesses provides an opportunity for new talent to gain experience on a variety of exciting projects. We actively promote opportunities internally to make sure team members gain the right experience on some of the largest infrastructure projects in the country.

We work closely with industry based educational organisations such as the Construction Industry Training Board (CITB), Chartered Institute of Building (CIOB) and the Institute Civil Engineers (ICE) to help our people achieve professional accreditation. Through these relationships we are able to identify the right work placement candidates, apprentices and graduates who are in the process of getting qualified. Many of these individuals end up working with us permanently.

Engagement and values

The level of engagement amongst our staff is important to us, we recognise that engaged people are more productive and loyal. Across VolkerRail we have embedded our values and approach to work, and results from our employee engagement survey indicate that we are on the right track.

Future skills, new talent

VolkerRail recognises the challenges in the industry to fill the skills gap, especially as the government's infrastructure plan is initiated. Our response is to continue our apprentice and graduate programmes, developing early careers in the industry to support the next generation of engineers.

We support the Careers and Enterprise Company and other similar organisations, providing volunteered help and advice to a number of schools and colleges to promote engineering and construction careers and raise awareness.

Investing in early careers is important to us and we see apprenticeships, work placements and the graduate scheme as a central part of our future skills and talent strategy. We are fully engaged and offer a variety of opportunities aligned to their specialist skillset. Our experienced managers also offer mentoring, and coaching, enabling the sharing of a wealth of knowledge and experience in engineering and construction.

VolkerRail Limited
Strategic report
for the year ended 31 December 2016

Supply chain management

Supply chain management is an integral part of the Company'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.

VolkerRail Limited, as part of the VolkerWessels UK Group, is a signatory to the Prompt Payment Code sponsored by the Department for Business, Energy & Industrial Strategy. As a signatory we undertake to:

- 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
- 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
- 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.

By order of the Board



S J Cocliff
Director
25 May 2017
VolkerRail Limited
Company registered number: 3184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

VolkerRail Limited

Directors' Report

for the year ended 31 December 2016

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

Dividends

The directors do not recommend the payment of the final dividend (2015: £nil). An interim dividend of £4,000,000 was paid during the year (2015: £6,000,000).

Directors

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

S J Cocliff
N A Connell
P H Nolan
A R Robertson
A M Wilkins
M G Woods
VolkerWessels UK Limited

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 the management skills available 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 employee's 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 £17,008 (2015: £10,653). The Company made no political donations during the year (2015: £nil).

Directors' indemnities

The Company has arranged qualifying third party indemnity provisions for the benefit of its directors.

Going concern

Given the Company's net cash position and the strength of the forward secured order book, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 months from the date of signing the financial statements (see note 2.4 for further details).

Other disclosures

Disclosures in respect of future developments of the Company are given in the Strategic Report.

Information on financial instruments is given in note 19 of the financial statements.

VolkerRail Limited
Directors' Report
for the year ended 31 December 2016

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 he/she ought to have taken as a Director to make himself/herself aware of any 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 S148 of the Companies Act 2006.

Auditor

Deloitte LLP have indicated their willingness to be reappointment for another term and arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an annual general meeting.

By order of the Board



S J Cocliff
Director
25 May 2017
VolkerRail Limited
Company registered number: 3184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

VolkerRail Limited
Directors' Responsibilities Statement
for the year ended 31 December 2016

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

Independent Auditor's Report to the Members of VolkerRail Limited for the year ended 31 December 2016

We have audited the financial statements of VolkerRail Limited for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Cash Flow Statement and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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, 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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; 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, 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.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Independent Auditor's Report to the Members of VolkerRail Limited for the year ended 31 December 2016

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.



Makhan Chahal ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
25 May 2017

VolkerRail Limited
Income Statement
for the year ended 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Revenue	3	79,395	86,159
Cost of sales		(70,825)	(78,446)
Gross profit		8,570	7,713
Administrative expenses		(3,717)	(3,939)
Operating result	4	4,853	3,774
Financial income	7	60	98
Financial expense	8	(1)	(3)
Profit before tax		4,912	3,869
Taxation	9	(986)	(644)
Profit for the year		3,926	3,225

All results derive from continuing operations.

The notes on pages 20 to 38 form an integral part of the financial statements.

VolkerRail Limited
Statement of Comprehensive Income
for the year ended 31 December 2016

	2016	2015
	£000	£000
Profit for the year	3,926	3,225
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	<u>3,926</u>	<u>3,225</u>

The notes on pages 20 to 38 form an integral part of the financial statements.

VolkerRail Limited
Statement of Financial Position
as at 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Non-current assets			
Deferred tax assets	11	128	157
Current assets			
Trade and other receivables	12	7,924	7,176
Corporation tax receivable		221	743
Cash and cash equivalents	13	28,284	31,821
		36,429	39,740
Total assets		36,557	39,897
Equity			
Share capital	17	4,000	4,000
Capital contribution reserve		1,400	1,400
Retained earnings		4,758	4,832
Total equity		10,158	10,232
Non-current liabilities			
Provisions	15	19	13
Current liabilities			
Trade and other payables	14	26,027	29,299
Provisions	15	353	353
		26,380	29,652
Total liabilities		26,399	29,665
Total equity and liabilities		36,557	39,897

These financial statements were approved by the Board of Directors on 25 May 2017 and were signed on its behalf by:



SJ Codiff

Director

Company registered number: 03184313

The notes on pages 20 to 38 form an integral part of the financial statements.

VolkerRail Limited
Statement of Changes in Equity
for the year ended 31 December 2016

	Share capital £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2015	4,000	1,400	7,607	13,007
Comprehensive income				
Profit for the year	-	-	3,225	3,225
Total comprehensive income	-	-	3,225	3,225
Transactions with owners				
Dividends paid (note 18)	-	-	(6,000)	(6,000)
Balance at 31 December 2015	4,000	1,400	4,832	10,232
Balance at 1 January 2016	4,000	1,400	4,832	10,232
Comprehensive income				
Profit for the year	-	-	3,926	3,926
Total comprehensive income	-	-	3,926	3,926
Transactions with owners				
Dividends paid (note 18)	-	-	(4,000)	(4,000)
Balance at 31 December 2016	4,000	1,400	4,758	10,158

The notes on pages 20 to 38 form an integral part of the financial statements.

The Capital Contribution Reserve arose in 2008 when a Share Premium Reserve of £1,400,000 that had arisen on the issue of 4,000,000 shares in VolkerRail Limited was converted to a Capital Contribution Reserve following the acquisition of shares in VolkerRail Limited with a nominal value of £4,000,000 in exchange for shares in VolkerRail Group Limited with a nominal value of £5,400,000.

VolkerRail Limited
Cash Flow Statement
for the year ended 31 December 2016

	<i>Note</i>	2016 £000	2015 £000
Cash flows relating to operating activities			
Profit for the year		3,926	3,225
Adjustments for:			
Financial income		(60)	(98)
Financial expense		1	3
Tax charge in the Income Statement		986	644
(Increase) / decrease in trade and other receivables		(2,317)	3,025
(Decrease) / increase in trade and other payables		(5,842)	2,129
Increase / (decrease) in Intercompany		4,138	(9,102)
Increase in provisions		6	160
R&D expense credit		(944)	(1,253)
Tax received		510	523
Net cash from /(used) in operating activities		404	(744)
Cash flows relating to investing activities			
Interest received		60	98
Net cash from investing activities		60	98
Cash flows relating to financing activities			
Dividends paid		(4,000)	(6,000)
Interest paid		(1)	(3)
Net cash used in financing activities		(4,001)	(6,003)
Net decrease in cash and cash equivalents		(3,537)	(6,649)
Cash and cash equivalents at 1 January		31,821	38,470
Cash and cash equivalents at 31 December	13	28,284	31,821

The notes on pages 20 to 38 form an integral part of the financial statements.

VolkerRail Limited

Notes to the Financial Statements

for the year ended 31 December 2016

1 General information

The Company is incorporated and domiciled in the United Kingdom under the Companies Act. The Company is a private company limited by shares and is registered in England and Wales. The address of the Company's registered office is shown on page 1.

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.

2.2 Measurement convention

The financial statements are prepared on the historical cost basis except for certain financial instruments which are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

2.3 Adopted IFRS not yet applied

New amendments to Standards and Interpretations that became mandatory for the first time for the financial year beginning 1 January 2016 are listed below. The new amendments had no significant impact on the Company's results other than certain revised disclosures.

- Annual Improvements to IFRSs: 2012-14 Cycle;
- IFRS 14 'Regulatory Deferral Accounts';
- IAS 16 and IAS 38 (amendments) 'Clarification of Acceptable Methods of Depreciation and Amortisation';
- IAS 16 and IAS 41 (amendments) 'Agriculture - Bearer Plants';
- IAS 27 (amendments) 'Equity Method in Separate Financial Statements' (mandatory for the year commencing on or after 1 January 2016);
- IFRS 10 and IAS 28 (amendments) 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture';
- IFRS 10, IFRS 12 and IAS 28 (amendments) 'Investment Entities: Applying the Consolidation Exception';
- IFRS 11 (amendments) 'Joint Arrangements'; and
- IAS 1 (amendments) 'Presentation of Financial Statements' Disclosure Initiative.

The following adopted IFRSs (by the European Union) 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:

- IAS 12 (amendments) 'Recognition of Deferred Tax Assets for Unrealised Losses' (mandatory for the year commencing on or after 1 January 2017);
- IFRS 9 'Financial Instruments' (mandatory for the year commencing on or after 1 January 2018);
- IFRS 15 'Revenue from Contracts with Customers' (mandatory for the year commencing on or after 1 January 2018), the impact of the standard has not been determined at this stage;
- IFRS 2 (amendments) 'Classification and Measurement of Share-based Payment Transactions' (mandatory for the year commencing on or after 1 January 2018);
- IFRS 4 (amendments) 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts' (mandatory for the year commencing on or after 1 January 2018); and
- IFRS 16 'Leases' (mandatory for the year commencing on or after 1 January 2019).

Standards and Interpretations which have been issued but not yet adopted by the European Union are not expected to have a material impact on the financial statements in future periods.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

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 Business Review section of the Strategic Report on pages 2 to 9. In addition, note 19 to the financial statements includes the Company 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 19(c).

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the 12 months from the date of signing the financial statements. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.5 Jointly controlled operations

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

2.6 Operating leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Rental payments received under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

2.7 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.

2.8 Construction contract debtors

Construction contract debtors represent the gross unbilled income for contract work performed to date plus billed work which has not been paid. 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 statement of financial position. If payments received from customers exceed the income recognised, then the difference is presented as deferred income in the statement of financial position. Claims derived from variations on contracts are not recognised until the outcome of the particular claim is virtually 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.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

2.9 Impairment excluding deferred tax assets

The carrying amounts of the Company's assets are reviewed at each year-end 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.

The recoverable amount of the Company's 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 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.

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.

2.10 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.

2.11. Derivative financial instruments

Derivative financial instruments comprise instruments used to manage exposures to fluctuations in foreign currencies. The Company does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised in the statement of financial position at fair value on the date the transaction is entered into and are subsequently re-measured at their fair values.

Changes in the fair value of the derivatives are recognised in the income statement.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

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.

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.

An impairment analysis is performed at each reporting date on an individual basis. The calculation is based on actual incurred historical data. Impairment is recognised in an allowance account which is deducted from the gross total.

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.

2.13 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 statement of financial position 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.

Provisions are made based on the Directors' best estimate of the position of known legal claims, investigations and actions at the year end. The Company 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 Company cannot make a sufficiently reliable estimate of the potential obligation or benefit.

2.15 Taxation

Tax on the profit 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 year-end, 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 year-end.

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.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

2 Accounting policies (continued)

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

When the outcome of individual contracts can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract.

When the outcome of individual contracts cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable those costs will be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately.

Contract revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments. 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 year-end as a percentage of total estimated costs for each contract.

Service contract revenues

Revenue from service contracts rendered is recognised in profit or loss 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 year-end as a percentage of total estimated costs for each contract.

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:

	2016 £000	2015 £000
Construction contract revenues	77,831	84,012
Service contract revenues	1,564	2,147
Total revenues	79,395	86,159

Service contract revenues primarily relate to revenues generated through the provision of maintenance services and the hire of specialist plant and equipment. All other revenue generated by the Company is classified as construction contract revenues.

All revenues relate to sales made in the United Kingdom.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

4 Operating result

Operating result is stated after charging / (crediting):

	2016 £000	2015 £000
<i>Operating lease charges</i>		
- land & buildings	579	378
- plant and machinery	128	666
<i>Auditor's remuneration</i>		
- audit of these financial statements	45	45
- other services	-	-
<i>Rents receivable</i>	(14)	(63)

In the current year, one-off non-audit services were provided jointly to VolkerRail Limited and VolkerFitzpatrick Limited (part of the VolkerWessels UK Ltd group). The fee was £7,000 and was borne by VolkerFitzpatrick Limited.

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:

	2016 No	2015 No
Management & administrative	67	73
Operational	227	224
	<u>294</u>	<u>297</u>

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	14,992	14,611
Social security costs	1,688	1,616
Contributions to defined contribution plans	1,218	1,270
	<u>17,898</u>	<u>17,497</u>

6 Directors' remuneration

	2016 £000	2015 £000
Directors' emoluments	1,055	690
Company contributions to money purchase pension plans	139	193
Social security costs	73	89
	<u>1,267</u>	<u>972</u>

Three directors (2015: 3) are remunerated through the Company; the remainder are remunerated through VolkerServices Limited, a subsidiary of VolkerWessels UK Limited.

The emoluments of the highest paid Director were £566,000 (2015: £378,000) and company pension contributions of £28,000 (2015: £40,000) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to three (2015: 3) Directors under money purchase pension schemes.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

7 Financial income

	2016 £000	2015 £000
Interest income on short-term bank deposits	<u>60</u>	<u>98</u>
Total financial income	<u><u>60</u></u>	<u><u>98</u></u>

8 Financial expense

	2016 £000	2015 £000
Other interest	<u>1</u>	<u>3</u>
Total financial expense	<u><u>1</u></u>	<u><u>3</u></u>

9 Taxation

a) Analysis of the tax recognised in the income statement

	2016 £000	2015 £000
<i>Current tax expense</i>		
UK corporation tax:		
Current year	923	195
Adjustments for prior periods	<u>32</u>	<u>(16)</u>
Current tax expense	<u><u>955</u></u>	<u><u>179</u></u>
<i>Deferred tax expense (see note 11)</i>		
Origination and reversal of temporary differences	33	480
Change in tax rate	7	18
Adjustments for prior periods	<u>(9)</u>	<u>(33)</u>
Deferred tax expense	<u><u>31</u></u>	<u><u>465</u></u>
Total tax expense	<u><u><u>986</u></u></u>	<u><u><u>644</u></u></u>

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

9 Taxation (continued)

b) Reconciliation of effective tax rate

The total tax charge for the year is higher (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below.

	2016	2015
	£000	£000
Profit for the year	3,926	3,225
Total tax expense	986	644
Profit before tax	4,912	3,869
Tax using the UK corporation tax rate of 20% (2015: 20.25%)	982	784
Effects of:		
Non-deductible expenses	14	26
Effect of changes in tax rates	7	18
Effects of R&D expenditure credit	(40)	(135)
Adjustments for prior periods	23	(49)
Total tax expense	986	644

c) Factors that may affect future current and total tax charges:

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and Finance Bill 2016 on 15 September 2016. These include reductions in the rate of corporation tax to 19% from 1 April 2017 and to 17% from 1 April 2020. Deferred taxes at the year-end have been measured using these enacted tax rates and reflected in these financial statements.

10 Investments

The Company has entered into three Jointly Controlled Operations ("JCOs") with different partners for the purpose of undertaking specific contracts. VolkerRail Limited 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 statement of financial positions are taken as at 31 December for each year end.

The principal JCOs of the Company are as follows:

Jointly controlled operations

JCO	Principal activities	JCO partner	Address	Ownership % 2016	2015
MPACT	Track Renewals, Maintenance and Civil Works	Laing O'Rourke Infrastructure Limited	1 & 2	40%	40%
Stafford Area Improvement Plan (SAIP)	Track Renewals, Re-signalling and Civil Works	Laing O'Rourke Construction Limited / Atkins Limited	1, 2 & 3	33.33%	33.33%
East West Rail Phase 2 Alliance	Track Renewals, Re-signalling, Overhead Line and Civil Works	Laing O'Rourke Construction Limited / Atkins Limited	1, 2 & 3	33.33%	33.33%
1 Eagle House Unit 1a, J3 Business Park Carr Hill Road Doncaster South Yorkshire DN4 8DE	2 Bridge Place 1 & 2 Anchor Boulevard Admirals Park Crossways Dartford Kent DA2 6SN	3 Woodcote Grove Ashley Road Epsom KT18 5BW			

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

11 Deferred tax assets

a) Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets	
	2016	2015
	£000	£000
Property, plant and equipment	101	120
Provisions for pension	23	31
Provision for long service award	4	6
	<hr/>	<hr/>
Deferred tax assets	128	157
	<hr/>	<hr/>

b) Movement in deferred tax in the year

	1 January 2016	Charge in	31 December 2016
	£000	profit or loss	£000
		£000	
Property, plant and equipment	120	(19)	101
Provisions	37	(10)	27
	<hr/>	<hr/>	<hr/>
	157	(29)	128
	<hr/>	<hr/>	<hr/>

c) Movement in deferred tax in the prior year

	1 January 2015	Charge in	31 December 2015
	£000	profit or loss	£000
		£000	
Property, plant and equipment	206	(86)	120
Provisions	46	(9)	37
Losses	370	(370)	-
	<hr/>	<hr/>	<hr/>
	622	(465)	157
	<hr/>	<hr/>	<hr/>

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

12 Trade and other receivables

	2016	2015
	£000	£000
Trade receivables	150	72
Construction contract debtors	6,772	3,621
Amounts owed by group undertakings	901	3,415
Prepayments	101	68
	<u>7,924</u>	<u>7,176</u>
Current	7,924	7,176
Non-current	-	-
	<u>7,924</u>	<u>7,176</u>

At 31 December 2016, aggregated costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £138,256,000 (2015: 89,746,000).

At 31 December 2016, trade receivables include retentions of £nil (2015: £50,000) relating to construction contracts in progress.

13 Cash and cash equivalents

	2016	2015
	£000	£000
Cash and cash equivalents	<u>28,284</u>	<u>31,821</u>

14 Trade and other payables

	2016	2015
	£000	£000
Trade payables	15,598	17,350
Other tax and social security costs	1,762	1,491
Non trade payables and accrued expenses	4,749	3,421
Amounts due to customers for contract work	1,121	5,865
Amounts due to Group undertakings	2,797	1,172
	<u>26,027</u>	<u>29,299</u>
Current	26,027	29,299
Non-current	-	-
	<u>26,027</u>	<u>29,299</u>

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

15 Provisions

	Onerous lease provision £000	Other provisions £000	Total £000
Balance at 1 January 2016	11	355	366
Credited to the income statement	-	(2)	(2)
Unwinding of discounts	1	-	1
Utilised in the year	(12)	19	7
Balance at 31 December 2016	-	372	372
Analysis of total provisions at 31 December 2016			
Non-current	-	19	19
Current	-	353	353
	-	372	372
Analysis of total provisions at 31 December 2015			
Non-current	-	13	13
Current	11	342	353
	11	355	366

Onerous lease provision

The onerous lease provision was made in respect of the difference between future operating lease rentals payable by the Company and rents receivable from its tenants. See note 4 for details of rents receivable.

Other Provisions

Other Provisions include insurance provision and provision for Long Service Award. The provision for long service awards recognises long service awards due to certain group employees. The provision is based on the current profile of the workforce and latest labour turnover rates. Utilisation of the provisions will be dependent upon the settlement of insurance claims, and the work anniversaries and retirement dates of the workforce. Insurance provisions relate to additional premiums payable to insurers in respect to claims settled in the future by the insurers. The provisions include provision for claims incurred but not reported (IBNR), provisions for the estimated cost of settling claims incurred up to, but not paid at, the balance sheet date whether reported or not, together with the relevant claims settlement expenses.

16 Employee benefits

Pension plans

The Company operates a number of pension plans (see note 2.7). The total expense and creditor outstanding relating to these plans was as follows:

	Pension charges		Creditor outstanding	
	2016 £000	2015 £000	2016 £000	2015 £000
Friends Life Pension Scheme (defined contribution)	304	291	45	75
Peoples Pension Scheme (defined contribution)	8	8	3	3
Prudential Pension Scheme(defined contribution)	906	971	88	114
	1,218	1,270	136	192

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

17 Share capital

Authorised, allotted, called up and fully paid	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 2016 and 31 December 2016	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 Dividends

An interim dividend of 100p (2015: 150p) per share totalling £4,000,000 was paid during the year (2015: £6,000,000). The directors do not recommend the payment of a final dividend (2015: £nil).

19 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 year-end 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 year-end 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 year-end.

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 year-end.

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

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

19 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:

	2016 £000	2015 £000
Trade and other receivables	7,823	7,108
Cash and cash equivalents (see note 13)	28,284	31,821
Total financial assets	36,107	38,929
Trade and other payables	24,265	27,808
Total financial liabilities	24,265	27,808
Total financial instruments	11,842	11,121

Trade and other receivables above exclude prepayments.

Trade and other payables above exclude other tax and social security costs.

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 year-end, namely cash and cash equivalents and trade and other receivables. The Company continuously monitors defaults of customers and other counterparties, identified either individually or by company, and incorporates 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, and takes out insurance against this risk.

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 £7,823,000 at 31 December 2016 (2015: £7,108,000). The maximum exposure to credit risk for trade receivables at the year-end by business segment and type of customer was as follows:

	2016 £000	2015 £000
Public sector customers	150	53
Private sector customers	-	19
	150	72

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

19 Financial instruments (continued)

b) Credit risk (continued)

Credit quality of financial assets and impairment losses

The ageing of trade receivables at the year-end was as follows:

	2016		2015	
	Gross £000	Impairment £000	Gross £000	Impairment £000
Not past due	150	-	55	-
Past due (0-30 days)	-	-	-	-
Past due (31-120 days)	-	-	17	-
More than 120 days	-	-	-	-
	<u>150</u>	<u>-</u>	<u>72</u>	<u>-</u>

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 2016 (2015: £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.

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 £000	Contractual cash flows £000	1 year or less £000
2016			
Trade and other payables	<u>24,265</u>	<u>24,265</u>	<u>24,265</u>
2015			
Trade and other payables	<u>27,808</u>	<u>27,808</u>	<u>27,808</u>

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

19 Financial instruments (continued)

d) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as 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 year-end the interest rate profile of the Company's interest bearing financial instruments was as follows:

	2016 £000	2015 £000
<i>Variable rate instruments</i>		
Financial assets (note 13)	<u>28,284</u>	<u>31,821</u>

A change of 100 basis points in interest would neither increase nor decrease equity (2015: neither increase nor decrease equity) for the Company. The sensitivity of 100 basis points represents the Directors' assessment of a reasonably possible change, based on historic volatility.

e) Capital risk management

For the purpose of the Company's capital risk management, capital includes issued share capital and all other equity reserves attributable to the equity holders of the Company.

The primary objective of the Company's capital risk management is to maximise shareholder value.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

The Company monitors capital through regular forecasts of its cash position to management on both a short-term and long-term basis. Performance against forecasts is also reviewed and analysed to ensure the Company efficiently manages its net cash position.

Net cash is calculated as cash and cash equivalents less total borrowings.

No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2016 and 2015.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

20 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Plant and machinery	
	2016 £000	2015 £000	2016 £000	2015 £000
Less than one year	613	157	116	60
Between one and five years	1,204	28	109	35
More than five years	455	-	-	-
	<u>2,272</u>	<u>185</u>	<u>225</u>	<u>95</u>

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

	2016 £000	2015 £000
Land and buildings	579	378
Plant and machinery	128	666
	<u>707</u>	<u>1,044</u>

The Company leases properties, vehicles and equipment for operational purposes. These leases have remaining term of between 4 months and 7.17 years. No leases include contingent rentals.

21 Contingencies

The Company has contingent liabilities in respect of performance bonds, guarantees and actual and potential claims by third parties under contracting and other arrangements entered into during the normal course of business. Whilst the outcome of these matters is uncertain, the directors believe that appropriate provision has been made within the financial statements in respect of these matters.

The Company is jointly and severally liable for the debts of the unincorporated joint controlled operations (note 10), of which it recognises 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.

22 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 (i.e. Directors) is as follows:

	2016 £000	2015 £000
Short-term employee benefits	1,055	690
Social security costs	139	89
Post-employment benefits	73	193
	<u>1,267</u>	<u>972</u>

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.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

22 Related parties (continued)

Related party transactions with fellow group undertakings

Related party transactions with fellow group undertakings are summarised below:

	Parent undertaking	Fellow subsidiary undertakings	Total
	2016	2016	2016
	£000	£000	£000
Amounts owed by undertaking			
At start of year	268	3,147	3,415
Income	-	8,077	8,077
Receipts	-	(9,970)	(9,970)
Net intercompany loan account movement	(1)	(620)	(621)
At end of year	267	634	901
	2015	2015	2015
	£000	£000	£000
Amounts owed by undertaking			
At start of year	-	3,530	3,530
Income	-	15,030	15,030
Receipts	-	(16,033)	(16,033)
Net intercompany loan account movement	268	620	888
At end of year	268	3,147	3,415

The net intercompany loan account movement represents the net total of intercompany transactions through the loan account with VolkerRail Specialist Businesses Limited and VolkerRail Group Limited in respect of treasury activities and costs paid by VolkerRail Limited on behalf of VolkerRail Specialist Businesses Limited and VolkerRail Group Limited and subsequently recharged. All other undertaking balances are derived from trading transactions.

	Parent undertaking	Fellow subsidiary undertakings	Total
	2016	2016	2016
	£000	£000	£000
Amounts owed to undertakings			
At start of year	-	(1,172)	(1,172)
Expenses	-	(17,221)	(17,221)
Repayments	-	16,973	16,973
Net intercompany loan account movement	-	(1,377)	(1,377)
At end of year	-	(2,797)	(2,797)
	2015	2015	2015
	£000	£000	£000
Amounts owed to undertakings			
At start of year	(733)	(8,181)	(8,914)
Expenses	-	(13,421)	(13,421)
Repayments	-	14,326	14,326
Net intercompany loan account movement	733	6,104	6,837
At end of year	-	(1,172)	(1,172)

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

22 Related parties (continued)

	Group undertaking 2016 £000
Loans owed to undertaking	-
At start of year	-
Movement in the year	-
At end of year	-
	2015 £000
Loans owed to undertaking	-
At start of year	(2,000)
Repayments	2,000
At end of year	-

23 Ultimate parent company and parent undertaking of larger Company of which the Company is a member

The Company is a subsidiary undertaking of VolkerRail Group Limited which is incorporated in the United Kingdom.

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

The results of the Company are included in the consolidated financial statements of its ultimate parent company, Koninklijke VolkerWessels N.V. (previously known as Storm Investments B.V.), a company incorporated in The Netherlands. Copies of the consolidated financial statements may be obtained from its Amersfoort office: Podium 9, 3826 PA Amersfoort, P.O. Box 2767, 3800 GJ Amersfoort, The Netherlands.

24 Accounting estimates and judgement

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures. The nature of estimation and judgement means that actual outcomes could differ from expectation and may result in a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Critical Judgements in Applying the Company's Accounting Policies

In the process of applying the Company's accounting policies, the Directors have made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Categorisation of contracts

The categorisation of contracts in whole or part as Construction contracts or Service Contracts is based on the nature of the works provided under the contract with regard to IAS 11 and IAS 18 respectively.

VolkerRail Limited
Notes to the Financial Statements
for the year ended 31 December 2016

24 Critical Judgements in Applying the Company's Accounting Policies (continued)

Key Sources of Estimation Uncertainty

The Company does not have any key assumptions concerning the future or other key sources of estimation uncertainty in the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year. Notwithstanding this, as a significant portion of the Company's activities are undertaken through long term construction contracts the Company is obliged to make estimates in accounting for revenue and margin. These amounts may depend on the outcome of future events and may need to be revised as circumstances change. The relevant areas are detailed below:

(a) Revenue recognition

With the exception of our term maintenance contracts, the Company uses the percentage-of-completion method to determine the appropriate amount of revenue to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the year-end as a percentage of total estimated costs for each contract.

This requires forecasts to be made of the outcomes of long-term construction, which require assessments and judgements to be made on changes in the scope of work, changes in costs, maintenance and defects liabilities.

Across the Company there are several long-term projects where the best estimate has been made on significant judgements. Any such estimate may change as new information becomes available and may have a material effect on the Company's revenue, profits and cash flows.

(b) Claims

Management's best judgement is taken into account in reporting disputed amounts, legal cases and claims but the actual outcome in future may be different from this judgement.