VolkerRail

VolkerRail Limited

Annual Report and Financial Statements

Registered number: 03184313

31 December 2017

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VolkerRail Limited
Contents

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
Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Registered Office
Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

Registered Number
03184313

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 1, 4 & 26a
J3 Business Park
Carr Hill Road
Doncaster
South Yorkshire
DN4 8DE

Dawes Lane
Frodingham
Scunthorpe
North Lincolnshire
DN15 6UW

Hertford Road
Hoddesdon
Hertfordshire
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

Jubilee House
East Beach
Lytham St Annes
FY8 5FT

Gorst Farm, Lodge Lane
Elswick
Preston
PR4 3YH

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:

	2017	2016
	£000	£000
Revenue	149,454	79,395
Gross profit	10,919	8,570
Gross profit margin	7.3%	10.8%
Operating result	5,930	4,853
Operating result margin	4.0%	6.1%
Net cash	75,033	28,284
Net assets	10,877	10,158
Secured order book	153,273	66,946

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

The Company saw an increased gross profit and operating result in 2017 due to a significant increase in revenue. Revenues increased as result of the higher revenues in the CP5 Panel Framework with Network Rail, particularly in the NWEP Phase 4 contract for the electrification of the Preston to Blackpool route. The lower fee percentages attracted by the CP5 Panel Framework in comparison to contracts delivered in 2016 lead to a reduction in gross profit and operating result margins.

Net cash increased in the year due the positive impact of working capital cash flows arising from increased revenues and the timing of client payments. Following a dividend of £4.1m, net assets increased by £719,000.

The Company continues to have a solid financial position, underpinned by an increased secured order book that should ensure that the Company has the ability to continue to build upon its current position.

Company Overview and Future Developments

The Company delivers major multidisciplinary engineering projects, including the Manchester Metrolink, 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 VolkerWessels UK, 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 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)

MPACT's maintenance contract for the highly successful Manchester Metrolink Phase 3 project ended during the year as did the final elements of The Second City Crossing and Deansgate-Castlefield works. The successful completion of these elements of the overall programme maintained our strong relationship with the client and our JV partners. Work commenced in the year on the Trafford Park Line, which extends the Metrolink route from Pomona Viaduct to the Trafford Centre shopping centre and leisure complex, and is expected to complete in 2020. The works are progressing well and the team has already received praise from the client.

Company Overview and Future Developments (continued)

Rail Electrification Alliance (REAL)

The REAL portfolio of projects continues to progress positively, and the ORR milestone was achieved in August 2 weeks ahead of schedule despite significant challenges to the programme caused by Grid interfaces. 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. 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 Edinburgh and is currently being priced.

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 now well underway in the development and design phase. The team are currently working on the formal submission of the Target Cost which will be carried out in stages. 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 2016 and in 2017 recovery of redundant assets, demobilisation and the final account agreement were concluded. 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 London North West (LNW) Route from Euston to Carlisle. The Client has indicated that this Agreement will be extended for a further two years to 2021 and potentially further.

The largest project within the framework is Preston to Blackpool Electrification, part of Network Rail's North West Electrification Programme. Works commenced on site in 2017 and are due to complete by May 2018, allowing the scheduled introduction of the new Electrical train services.

Other works under this Framework include Bromsgrove Drainage & Track and Kenilworth Intervention which have received significant praise from our client and 3rd parties, for safe and high quality delivery.

London Underground Sub Surface Resignalling 4 Line Modernisation (SSR 4LM)

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 London Underground.

Secured order book

At 31 December 2017 the Company's secured order book stood at £153.3m, a significant increase from 2016 when it stood at £66.9m.

Contracts secured at the end of 2016 have been successfully delivered and we have secured further contracts to replace these and increase the order book value. The contracts signed on Trafford Park Line and the Panel framework like Preston to Blackpool Electrification, Blackpool Sidings and Cannock & Bloxwich LSI have been the major elements in the increase in the secured forward order book, extending as far as 2020.

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.

We maintained good safety stats in all key areas, reflected in our safety performance indicators, and more importantly a safer working environment for our staff.

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 0.03
- Accident Incidence Rate (AIR) of 123
- 2% reduction in our Minor Injury Frequency Rate (IFR)
- 7% reduction in our All Reported Injury Rate (ARI)
- 17% increase in the total number of incidents
- 54% increase in hazard / near miss / close call frequency rate, over 4,500 reports raised.
- VolkerWessels UK achieved FORS Silver
- 1 British Safety Council 'International Safety' Awards
- Two RoSPA Gold Medals for Occupational Health & Safety and Management of Road Risk (sixth consecutive year)
- 13 drop-in-clinics conducted by occupational health, with over 619 attendees.

Sustainability

Our business strategy seeks to ensure ongoing environmental, social and business sustainability. Construction has a significant effect on the environment and 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.

Corporate responsibility (continued)

Relevant statistics - sustainability

- Carbon emissions per employee of 0.28 tCO_2e.
- Planet Mark™ Certificate achieved for continuous improvement in sustainability from Planet First, an international sustainability certification organisation.
- 91.38% 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 corporative, 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 £11,300 in donations to Bluebell Wood Hospice over the past six years. As part of our fundraising in 2018 we will continue with this partnership along with VolkerWessels UK's continued 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.

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

Risk and Impact	*Mitigation*
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. 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.	• 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

Risk and Impact	*Mitigation*
Our success is dependent on the recruitment, development, wellbeing and retention of our exceptional people who share our core values and culture. The risk is that we are unable to recruit or retain adequate high quality resources to deliver our programmes.	• Board level focus on all people matters to ensure a diverse and inclusive culture • 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

Risk and Impact	*Mitigation*
It is our vision to lead the Industry in our approach to project risk management, which starts at the pre-construction stage. 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.	• Systematic review and challenge of the quality of our submissions and pricing • Forum Group reviewing current processes and implementing additional/improved systems where required • 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 are applied through our tender review processes

Engineering and Operational Delivery

Risk and Impact	*Mitigation*
Successful delivery of our complex engineering and construction projects is dependent on the effective implementation and maintenance of operational and commercial procedures and controls. 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.	• 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

Risk management (continued)

Environmental

Risk and Impact	*Mitigation*
We are very aware that construction has a significant effect on the environment and the communities in which we work. Adverse impacts on the environment and breaches of legislation can lead to environmental harm, reputational damage and enforcement action.	• 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

Risk and Impact	*Mitigation*
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. 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.	• 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 • Regular review and testing of data security controls

Adequacy of Insurance

Risk and Impact	*Mitigation*
We maintain an appropriate insurance programme to mitigate against significant losses in line with general industry practice. Lack of adequate insurance cover could result in potential financial loss or penalties.	• 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

Risk and Impact	*Mitigation*
It is essential to fully understand the financial position of our partners in all of our contractual relationships. Failure of our partners including financial institutions, customers, joint-venture partners and our supply chain could potentially affect short-term cash flows.	• 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

Risk and Impact	*Mitigation*
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. 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.	• 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

Risk and Impact	*Mitigation*
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. Changes in the economic environment, government policy and regulatory developments may impact upon 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. The decision to leave the European Union has resulted in a period of uncertainty for the UK economy and increased volatility in financial markets.	• 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 • Actively monitor the situation with respect to the UK leaving the European Union and anticipate or respond to any risks or opportunities this might present

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 2017.

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 2017 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 of 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.

Equality, diversity and inclusion

VolkerWessels UK is committed to creating a diverse and inclusive environment for all those we work with: our dedicated and ambitious people, our supply chain and partners, our clients and local stakeholders. We are proud of who we are and the inclusive way we work, with a collective goal to provide quality and add value to our clients.

We understand that a diverse workforce is key to the future of our business and our focus is on building valuable experienced teams and attracting a diverse pool of talent.

Equality, diversity and inclusion for us is:

- Making sure every one of our current and future employees feel welcome, valued and respected and are motivated to perform at *their personal best*
- Creating high performing teams by bringing together different opinions and perspectives to deliver better solutions for our clients and opportunities for our people and our organisation
- Driving continuous improvement processes to maintain and enhance a diverse and inclusive environment
- Embedding a culture of diversity and inclusion through consistent key messages across our business
- Encouraging and attracting people from all ages and backgrounds through local and national recruitment in addition to engaging in education, graduate and apprenticeship programmes.

Our People (continued)

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.

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 and 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
14 June 2018
VolkerRail Limited
Company registered number: 03184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

The Directors present their annual Directors' Report and audited financial statements for the year ended 31 December 2017.

Dividends

The directors do not recommend the payment of the final dividend (2016: £nil). An interim dividend of £4,100,000 was paid during the year (2016: £4,000,000).

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, and to provide information on matters of concern to the employees including financial and economic factors affecting the performance of the company. 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 £4,621 (2016: £17,008). The Company made no political donations during the year (2016: £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.

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 reappointed 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
14 June 2018
VolkerRail Limited
Company registered number: 03184313

Hertford Road
Hoddesdon
Hertfordshire
EN11 9BX

VolkerRail Limited
Directors' Responsibilities Statement
for the year ended 31 December 2017

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.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of VolkerRail Limited (the 'company') 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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 or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

Makhan Chahal

Makhan Chahal ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
14 June 2018

VolkerRail Limited
Income Statement
for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Revenue	3	**149,454**	79,395
Cost of sales		**(138,535)**	(70,825)
Gross profit		**10,919**	8,570
Administrative expenses		**(4,989)**	(3,717)
Operating result	4	**5,930**	4,853
Financial income	7	**62**	60
Financial expense	8	**(2)**	(1)
Profit before tax		**5,990**	4,912
Taxation	9	**(1,171)**	(986)
Profit for the year		**4,819**	3,926

All results derive from continuing operations.

The notes on pages 20 to 37 form an integral part of the financial statements.

VolkerRail Limited
Statement of Comprehensive Income
for the year ended 31 December 2017

	2017 £000	2016 £000
Profit for the year	**4,819**	3,926
Items that will not be reclassified to profit or loss		
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the year	**4,819**	3,926

The notes on pages 20 to 37 form an integral part of the financial statements.

VolkerRail Limited
Statement of Financial Position
as at 31 December 2017

	Note	2017 £000	2016 £000
Non-current assets			
Deferred tax assets	11	**124**	128
Current assets			
Trade and other receivables	12	**9,801**	7,924
Corporation tax receivable		**-**	221
Cash and cash equivalents	13	**75,033**	28,284
		84,834	36,429
Total assets		**84,958**	36,557
Equity			
Share capital	17	**4,000**	4,000
Capital contribution reserve		**1,400**	1,400
Retained earnings		**5,477**	4,758
Total equity		**10,877**	10,158
Non-current liabilities			
Provisions	15	**-**	19
Current liabilities			
Trade and other payables	14	**72,520**	26,027
Corporation tax payable		**963**	-
Provisions	15	**598**	353
		74,081	26,380
Total liabilities		**74,081**	26,399
Total equity and liabilities		**84,958**	36,557

These financial statements were approved by the Board of Directors on 14 June 2018 and were signed on its behalf by:

SJ Cocliff
Director
Company registered number: 03184313

The notes on pages 20 to 37 form an integral part of the financial statements.

VolkerRail Limited
Statement of Changes in Equity
for the year ended 31 December 2017

	Share capital £000	Capital contribution reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2016	4,000	1,400	4,832	10,232
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**
Balance at 1 January 2017	4,000	1,400	4,758	10,158
Total comprehensive income	-	-	4,819	4,819
Transactions with owners				
Dividends paid (note 18)	-	-	(4,100)	(4,100)
Balance at 31 December 2017	**4,000**	**1,400**	**5,477**	**10,877**

The notes on pages 20 to 37 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 2017

	Note	2017 £000	2016 £000
Cash flows relating to operating activities			
Profit for the year		**4,819**	3,926
Adjustments for:			
Financial income		**(62)**	(60)
Financial expense		**2**	1
Tax charge in the Income Statement		**1,171**	986
Increase in trade and other receivables		**(2,104)**	(2,317)
Increase / (decrease) in trade and other payables		**39,330**	(5,842)
Increase in intercompany		**7,390**	4,138
Increase in provisions		**226**	6
R&D expense credit		**(44)**	(944)
Tax received		**61**	510
Net cash from operating activities		**50,789**	404
Cash flows relating to investing activities			
Interest received		**62**	60
Net cash from investing activities		**62**	60
Cash flows relating to financing activities			
Dividends paid		**(4,100)**	(4,000)
Interest paid		**(2)**	(1)
Net cash used in financing activities		**(4,102)**	(4,001)
Net increase / (decrease) in cash and cash equivalents		**46,749**	(3,537)
Cash and cash equivalents at 1 January		**28,284**	31,821
Cash and cash equivalents at 31 December	*13*	**75,033**	28,284

The notes on pages 20 to 37 form an integral part of the financial statements.

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 2017 are listed below. The new amendments had no significant impact on the Company's results other than certain revised disclosures:

- IAS 12 (amendments) 'Recognition of Deferred Tax Assets for Unrealised Losses'
- IAS 7 (amendments) 'Statement of Cashflows - Disclosure Initiative'
- IFRS 12 (amendments) 'Clarification of the scope of IFRS 12 with regard to assets held for sale'

The following adopted IFRSs (by the European Union) have been issued but have not been applied in these financial statements.

- 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) [1]
- 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)
- IFRS 16 'Leases' (mandatory for the year commencing on or after 1 January 2019)
- IFRS 17 'Insurance Contracts' (mandatory for the year commencing on or after 1 January 2021)

Estimated impact of the adoption of IFRS 9 and IFRS 15
IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' are mandatory for accounting periods beginning on or after 1 January 2018. The Company is in the process of finalising its detailed assessment of the impact of each of the new standards on the Company's financial statements. The Company has completed an initial assessment, the major findings of which are presented below.

<u>*IFRS 15 Revenue from Contracts with Customers*</u>
IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The underlying principle of IFRS 15 is that revenue should be recognised in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods and services transferred to the customer. The Company's revenue recognition policies are broadly consistent with IFRS 15. The requirements which may have an impact or which will require further assessment are discussed below;

Re-allocation of transaction price
IFRS15 requires contracts to be combined or split in certain circumstances. The purpose of combining and splitting contracts is to ensure an accurate allocation of the total transaction price to each of the individual performance obligations. This requirement could result in the re-allocation of revenue across projects and across periods/years. To date, no contracts have been identified as needing to be combined. A number of contracts with multiple performance obligations have been identified. We are assessing the impact the new requirements will have on the allocation of revenue.

2 Accounting policies (continued)

Progress measurement

IFRS15 stipulates that certain costs should not be included in the measurement of progress. Under certain circumstances the cost can be capitalised however for others the cost will need to be reported with no corresponding revenue;

1. Tender and bid costs incurred prior to reaching preferred bidder status are to be expensed.
2. Un-recoverable costs incurred as a result of significant inefficiencies can-not be included in the calculation of progress and therefore are expensed as incurred.
3. Mobilisation and setup costs will need to be capitalised and amortised over the life of the project.
4. The rules for uninstalled materials are complex and result in either capitalisation (inventory) or a separate performance obligation.

These changes are expected to have an impact on the timing of revenue recognition for certain contracts. Any impact of initial recognition will be shown as an adjustment to opening retained earnings (see the section on transition below). We are assessing the impact the new requirements will have on the Company's financial statements.

Variable consideration - IFRS15 states that variable consideration such as claims, bonuses, penalties and unpriced variation orders should be included to the extent that it is highly probable a significant reversal will not occur. Current policy is to recognise revenue where it is reasonably likely it will be agreed. We are assessing the impact the new requirement will have on the Company's revenue recognition in relation to variable consideration.

Significant financing costs/revenue- IFRS15 requires financing costs/revenue to be removed from the project and reported separately as interest expense/income. This could have an impact on project margin and revenue timing. No examples, which meet the criteria of significant financing costs/revenue, have been identified.

Transition

The Company plans to adopt IFRS 15 using the cumulative effect method. The cumulative effect of initially applying this standard will be shown as an adjustment to retained earnings at the date of first application (i.e. 1 January 2018). The Company will not be applying the requirements of IFRS 15 to the comparative period presented.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

Classification – Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets and allows three principal classification categories: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset are never bifurcated, instead the hybrid financial instrument is assessed as a whole.

We are assessing the impact the new requirements will have on the Company's treatment of Financial Assets.

Impairment – Financial Assets and Contract Assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward looking 'expected credit loss' (ECL) model. This will require judgement about how changes in economic factors affect ECLs, which will be determined on a probably-weighted basis. Under the IFRS 9 ECL model it is not necessary for a credit event to have occurred before credit losses are recognised. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. The Company expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables and contract assets as required or permitted by IFRS 9. We are assessing the impact the new requirements will have on the Company's accounting for trade receivables and contract assets.

Hedge Accounting

There are a number of changes within the standard with regards to hedge account. The Company does not routinely utilise hedging instruments and did not have any instruments classified as hedging relationships under IAS 39 at 1 January 2018. We are assessing the impact the new requirements will have on the Company's accounting for hedges.

Transition

The Company intends to adopt the standard using the modified retrospective approach which means the cumulative effect of initially applying this standard will be shown as an adjustment to retained earnings at the date of first application (i.e. 1 January 2018) and that comparatives will not be restated.

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.

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 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 Accounting policies (continued)

2.12 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.

2.13 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.

2.14 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.

2.15 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 Accounting policies (continued)

2.16 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:

	2017	2016
	£000	£000
Construction contract revenues	**148,376**	77,831
Service contract revenues	**1,078**	1,564
Total revenues	**149,454**	79,395

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.

4 Operating result

Operating result is stated after charging / (crediting):

	2017	2016
	£000	£000
Operating lease charges		
- land & buildings	**770**	579
- plant and machinery	**92**	128
Auditor's remuneration		
- audit of these financial statements	**69**	45
- other services	-	-
Rents receivable	-	(14)

One-off non-audit services were provided jointly to VolkerRail Limited and VolkerFitzpatrick Limited (part of the VolkerWessels UK Ltd group). The fee was £nil (2016: £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:

	2017 No	2016 No
Management & administrative	68	67
Operational	274	227
	342	294

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	17,213	14,992
Social security costs	1,972	1,688
Contributions to defined contribution plans	1,119	1,218
	20,304	17,898

6 Directors' remuneration

	2017 £000	2016 £000
Directors' emoluments	1,174	1,055
Company contributions to money purchase pension plans	31	73
Social security costs	155	139
	1,360	1,267

Three directors (2016: 3) are remunerated through the Company; the remainder are remunerated through VolkerServices Limited, a subsidiary of VolkerWessels UK Limited and are not included above.

The emoluments of the highest paid Director were £624,000 (2016: £566,000) and company pension contributions of £10,000 (2016: £28,000) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to three (2016: 3) Directors under money purchase pension schemes.

7 Financial income

	2017 £000	2016 £000
Interest income on short-term bank deposits	62	60
Total financial income	62	60

8 Financial expense

	2017 £000	2016 £000
Other interest	2	1
Total financial expense	2	1

9 Taxation

a) Analysis of the tax recognised in the income statement

	2017 £000	2016 £000
Current tax charge		
UK corporation tax:		
Current year	**1,201**	923
Adjustments for prior periods	**(34)**	32
Current tax charge	**1,167**	955
Deferred tax charge (see note 11)		
Origination and reversal of temporary differences	**9**	33
Change in tax rate	**(1)**	7
Adjustments for prior periods	**(4)**	(9)
Deferred tax charge	**4**	31
Total tax charge	**1,171**	986

b) Reconciliation of effective tax rate

The total tax charge for the year is higher (2016: higher) than the standard rate of corporation tax in the UK of 19.25% (2016: 20%). The differences are explained below.

	2017 £000	2016 £000
Profit for the year	**4,819**	3,926
Total tax expense	**1,171**	986
Profit before tax	**5,990**	4,912
Tax using the UK corporation tax rate of 19.25% (2016: 20%)	**1,153**	982
Effects of:		
Non-deductible expenses	**14**	14
Ineligible depreciation	**(1)**	-
Effect of changes in tax rates	**(1)**	7
Effects of R&D expenditure credit / (charge)	**44**	(40)
Adjustments for prior periods	**(38)**	23
Total tax charge	**1,171**	986

The credit adjustment in the reconciliation in respect of R&D tax relief has been offset by an equal but opposite prior year adjustment and, as a result, it does not impact the overall tax charge.

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 % 2017	Ownership % 2016
MPACT	Track Renewals, Maintenance and Civil Works	Laing O'Rourke Infrastructure Limited	1 & 2	**40%**	40%
Stafford Area Improvement Project (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 Eagre 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

11 Deferred tax assets

a) Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets 2017 £000	Assets 2016 £000
Property, plant and equipment	**91**	101
Provisions for pension	**33**	23
Provision for long service award	**-**	4
Deferred tax assets	**124**	128

b) Movement in deferred tax in the year

	1 January 2017 £000	Charge in profit or loss £000	31 December 2017 £000
Property, plant and equipment	101	(10)	91
Provisions	27	6	33
	128	**(4)**	**124**

11 Deferred tax assets (continued)

c) Movement in deferred tax in the prior year

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

12 Trade and other receivables

	2017	2016
	£000	£000
Trade receivables	**261**	150
Amounts due from customers for contract work	**8,898**	7,056
Amounts owed by group undertakings	**528**	617
Prepayments	**114**	101
	9,801	7,924
Current	**9,801**	7,924
Non-current	**-**	-
	9,801	7,924

At 31 December 2017, aggregated costs incurred under open construction contracts and recognised profits, net of recognised losses, amounted to £261,851,000 (2016: £138,256,000).

At 31 December 2017, trade receivables include retentions of £nil (2016: £nil) relating to construction contracts in progress.

13 Cash and cash equivalents

	2017	2016
	£000	£000
Cash and cash equivalents	**75,033**	28,284

14 Trade and other payables

	2017 £000	2016 £000
Trade payables	**24,337**	15,598
Other tax and social security costs	**6,929**	1,762
Non trade payables and accrued expenses	**7,810**	4,749
Amounts due to customers for contract work	**23,484**	1,121
Amounts due to Group undertakings	**9,960**	2,797
	72,520	26,027
Current	**72,520**	26,027
Non-current	**-**	-
	72,520	26,027

Included within Trade Payables are contract accruals of £11,049,000 (2017: £7,975,000), which comprises of amounts due to subcontractors, goods received not yet invoiced and other contract related accruals.

Included within Amount due to customers for contract works are advanced payments received of £16,000,000 (2017: £nil).

15 Provisions

	Long Service *Award provision* £000	Insurance *provisions* £000	*Total* £000
Balance at 1 January 2017	21	351	372
(Credited) / charged to the income statement	(21)	124	103
Received in the year	-	123	123
Balance at 31 December 2017	**-**	**598**	**598**
Analysis of total provisions at 31 December 2017			
Non-current	-	-	-
Current	-	598	598
	-	**598**	**598**
Analysis of total provisions at 31 December 2016			
Non-current	19	-	19
Current	2	351	353
	21	**351**	**372**

Long Service Award Provision
The provision for long service awards recognised long service awards due to certain group employees. The provision was based on the current profile of the workforce and latest labour turnover rates. Utilisation of the provision was dependent upon the work anniversaries and retirement dates of the workforce. Long Service Awards are no longer provided for due to the immaterial nature of the provision required.

Insurance Provisions
Insurance provisions relate to amounts payable by the business in the future in respect to claims settled and the relevant claims settlement expenses. *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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Friends Life Pension Scheme (defined contribution)	**412**	304	**63**	45
Peoples Pension Scheme (defined contribution)	**7**	8	**4**	3
Prudential Pension Scheme(defined contribution)	**700**	906	**127**	88
	1,119	1,218	**194**	136

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 2017 and 31 December 2017	**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 102.5p (2016: 100p) per share totalling £4,100,000 was paid during the year (2016: £4,000,000). The directors do not recommend the payment of a final dividend (2016: £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.

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:

	2017 £000	2016 £000
Trade and other receivables	9,687	7,823
Cash and cash equivalents (see note 13)	75,033	28,284
Total financial assets	84,720	36,107
Trade and other payables	65,591	24,265
Total financial liabilities	65,591	24,265
Total financial instruments	19,129	11,842

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 £9,687,000 at 31 December 2017 (2016: £7,823,000). The maximum exposure to credit risk for trade receivables at the year-end by business segment and type of customer was as follows:

	2017 £000	2016 £000
Public sector customers	258	150
Private sector customers	3	-
	261	150

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:

	2017		2016	
	Gross	**Impairment**	Gross	Impairment
	£000	**£000**	£000	£000
Not past due	**246**	-	150	-
Past due (0-30 days)	**12**	-	-	-
Past due (31-120 days)	**3**	-	-	-
More than 120 days	-	-	-	-
	261	-	150	-

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 2017 (2016: £nil). Financial assets that are not past due or impaired are of good quality.

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**
2017			
Trade and other payables	65,591	65,591	65,591
2016			
Trade and other payables	24,265	24,265	24,265

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:

	2017	2016
	£000	£000
Variable rate instruments		
Financial assets (note 13)	**75,033**	28,284

A change of 100 basis points in interest would neither increase nor decrease equity (2016: 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.

19 Financial instruments (continued)

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 2017 and 2016.

20 Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

	Land and buildings		Plant and machinery	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Less than one year	**604**	613	**79**	116
Between one and five years	**957**	1,204	**89**	109
More than five years	**245**	455	**-**	-
	1,806	2,272	**168**	225

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

	2017	2016
	£000	£000
Land and buildings	**770**	579
Plant and machinery	**92**	128
	862	707

The Company leases properties and equipment for operational purposes. These leases have remaining term of between 1 month and 6.17 years. No leases include contingent rentals.

21 Contingencies

The Company has contingent liabilities in respect of 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:

	2017 £000	2016 £000
Short-term employee benefit	**1,174**	1,055
Social security costs	**155**	139
Post-employment benefits	**31**	73
	1,360	1,267

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

Related party transactions with fellow group undertakings

Related party transactions with fellow group undertakings are summarised below:

	Parent undertaking 2017 £000	Fellow subsidiary undertakings 2017 £000	Total £000 2017 £000
Amounts owed by undertaking			
At start of year	267	634	901
Income	-	1,498	1,498
Receipts	-	(1,925)	(1,925)
Net intercompany loan account movement	200	-	200
At end of year	**467**	**207**	**674**

	2016 £000	2016 £000	2016 £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**

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.

22 Related parties (continued)

Terms and conditions of transactions with related parties
Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

	Parent undertaking 2017 £000	Fellow subsidiary undertakings 2017 £000	Total 2017 £000
Amounts owed to undertakings			
At start of year	-	(2,797)	(2,797)
Expenses	-	(32,679)	(32,679)
Repayments	-	23,974	23,974
Net intercompany loan account movement	-	1,542	1,542
At end of year	**-**	**(9,960)**	**(9,960)**

	2016 £000	2016 £000	2016 £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)**

Included in Amounts owed by group undertakings is £146,000 (2016: £284,000) which has been classified as construction contract debtors in Note 12 - Trade and other receivables.

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 England and Wales.

The smallest group in which the results of the Company are consolidated is that headed by VolkerRail Group Limited, the largest UK group in which the results of the Company are consolidated is that headed by VolkerWessels UK Limited. Both VolkerRail Group Limited and VolkerWessels UK Limited are incorporated in England. Copies of their consolidated financial statements may be obtained from the registered office at 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., 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.

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.