COMPANY NUMBER 02995525

COLAS RAIL LIMITED

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2012

CONTENTS

Directors

CA Giral
C Evans
O Roubicek
S Haynes
J Dunn

Secretary

J Quinnell

Registered office

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

Registered number

02995525

Auditors

KPMG LLP
15 Canada Square
London
E14 5GL

The Directors present their report and the audited financial statements for the year ended 31 December 2012

Principal activity

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

Business review

During the year, the Company maintained profitability and continued to win significant levels of new work across all parts of its business Despite the challenges posed by the economic environment, the market for the Company's activities remains robust as demand for rail travel continues to grow and greater national use of railway infrastructure to improve sustainability and reduce carbon emissions remains high on the political agenda

The Company continues to seek opportunities to enhance its operations further in support of the mission to become the United Kingdom's leading providers of rail infrastructure services

Results and dividends

The financial statements deal with the performance and position of the Company for the year ended 31 December 2012 and are shown on pages 6 and 7

The profit for the year on ordinary activities after taxation amounted to £3,326,000 (2011 £1,947,000)

The Directors do not recommend the payment of a dividend (2011 £Nil)

Directors

The Directors of the Company who served during the year ended 31 December 2012 and at that date are as follows

CA Giral
C Evans (appointed 23 April 2012)
O Roubieck (appointed 23 April 2012)
S Haynes (appointed 24 April 2012)
J Dunn (appointed 13 November 2012)

N Claxton served as a Director of the Company for the period 24 April 2012 to 4 November 2012

The Articles of Association deal with the powers, appointment and replacement of Directors

Directors' qualifying third party indemnity provisions

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

Directors' training

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

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

Health and Safety

The Company is committed to achieving the highest standards of health and safety and regularly reviews the policies and practices in place to ensure that appropriate standards are maintained

Sustainable procurement

The Company practices sustainable procurement in recognition that significant sustainability impacts - both positive and negative - can arise from its supply chain activities Procurement is undertaken within structured guidelines on the sustainability issues that should be considered during supplier selection and ongoing supplier management and engagement

Investing in community engagement
The Company is proactive in community engagement through all stages of its business activities Community engagement is not seen as an optional add-on but as a business-critical aspect of managing operations and projects effectively The process varies from project to project, depending on the geographical location and the nature of the stakeholders and their associated needs, however all of our projects show a commitment which extends well above the required minimum level of engagement and engages all relevant stakeholders in a meaningful dialogue over how a project can fulfil their own needs

Suppliers
The Company policy concerning the payment of trade creditors and other suppliers is to set the terms of payment with major suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in their contracts and pay all suppliers in accordance with its contractual and legal obligations

At the balance sheet date the Company had 35 days (2011 105 days) of trade and subcontract purchases outstanding

Donations
During the year the Company made charitable donations of £12,600 (2011 £3,072) and no political donations (2011 £Nil)

Business environment, strategy and principal risks
The Company's activities support the aims and objectives of the wider Group, which is to create shareholder wealth through railway engineering Consequently the business environment, strategy and principal risks faced by the Company are contained within those detailed in the annual report of Bouygues, the ultimate parent company

The principal risks faced by the Company are as follows

- Implementing effective health and safety management systems and working practices,
- Completing contracts to programme requirements,
- Forecasting accurately the financial outturn of contracts,
- Volatility of client expenditure,
- Changes in the regulatory environment,
- Complying with applicable laws and regulations, and
- Attracting and retaining skilled personnel

Share capital
The Company has a single class of share capital which is divided into ordinary shares of one pound each Details of the Company's share capital are set out in Note 16 The rights and obligations that are attached to the shares are set out in the Company's Articles of Association unless specified by law or regulation There are no restrictions on voting rights or the transfer of shares other than as specified by the Articles of Association

Internal control
The Directors recognise that they are responsible for the Company's system of internal control and for reviewing its effectiveness The system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against a material misstatement or loss There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company which has been in place during the year under review and up to the date of approval of the Report of the Directors

As part of this process the Directors carry out an annual review of significant business risks, considering the scale and effectiveness of the Company's system of internal control This involves the identification of risks specific to the areas of project and engagement management, finance and external markets which may impact on its objectives, together with the controls and reporting procedures designed to mitigate those risks These are reviewed, adopted and, if appropriate, updated during the year These include business risks, financial controls and the regulatory environment

Key performance indicators
A wide range of key performance indicators are monitored to measure the Company's performance over time The main indicators are
- **Safety** where indicators show how successful the Company has been in protecting its employees from harm,
- **Profitability** where indicators measure the profitability of work undertaken,
- **Contracts won** where indicators measure the award success of contracts tendered for,
- **Cash collection** where indicators measure the financial conversion of work performed against cash received, and
- **Balance sheet position** where indicators measure the financial efficiency of the Company and its balance sheet strength

Going concern
The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements

Employees
The Company's policy is to recruit and retain the very best individuals in the labour market, by determining the careers of all employees solely on merit and making judgments about employees, free from the effects of bias and prejudice

It is Company policy to consider for employment suitably qualified disabled people and to assist them in overcoming handicaps at work The Company recognises that special arrangements are necessary in view of the nature of its main activities, to ensure that disabled employees are properly trained for the tasks they perform The Company endeavours to retrain any employee who develops a disability during employment

Disclosure of information to auditors
So far as the Directors are each aware, there is no relevant audit information of which the auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditors are aware of that information

Auditors
Pursuant to the Companies Act 2006 the Company is not required to reappoint its auditors annually KPMG LLP will therefore continue as the auditor of the Company

By order of the Board

J Quinnell
Company Secretary
22 March 2013

Statement of Directors' Responsibilities in respect of the Directors Report and the Financial Statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period In preparing these financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company in order to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

By order of the Board

CA Giral
Director
22 March 2013

Independent auditors' report to the members of Colas Rail Limited

We have audited the financial statements of Colas Rail Limited for the year ended 31 December 2012 set out on pages 6 to 15 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

Ian Griffiths (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
22 March 2013

Profit and loss account, Statement of Total Recognised Gains and Losses, and Note of Historical Profit and Loss

Profit and Loss Account	**Note**	**2012 £'000**	**2011 £'000**
Turnover	2	150,541	132,572
Cost of sales		(134,641)	(121,953)
Gross profit		**15,900**	**10,619**
Administrative expenses		(12,625)	(9,887)
Operating profit	3	**3,275**	**732**
Profit on sale of tangible fixed assets		211	426
Interest receivable and similar income	6	613	1,320
Interest payable and similar charges	7	(560)	(531)
Profit on ordinary activities before taxation		**3,539**	**1,947**
Taxation	8	(213)	-
Profit on ordinary activities after taxation		**3,326**	**1,947**

All the Company's activities during the year relate to continuing operations

The notes on pages 8 to 15 form an integral part of these financial statements

Statement of Total Recognised Gains and Losses	**Note**	**2012 £'000**	**2011 £'000**
Profit on ordinary activities after taxation		3,326	1,947
Waiver of indebtedness with fellow group companies		-	3,337
Actuarial loss on company pension scheme	15, 17	(3,900)	(7,300)
Deferred taxation on company pension scheme		(16)	1,400
Total recognised losses		**(590)**	**(616)**

Note of Historical Cost Profit and Loss	**2012 £'000**	**2011 £'000**
Profit on ordinary activities before taxation	3,539	1,947
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	85	87
Historical cost profit on ordinary activities before taxation	**3,624**	**2,034**

COLAS RAIL LIMITED **COMPANY NUMBER 02995525**

Balance sheet as at 31 December 2012

	Note	2012	2011
Fixed assets		**£'000**	**£'000**
Intangible asset	9	975	1,040
Tangible fixed assets	10	29,201	33,814
		30,176	34,854
Current assets			
Stock	11	637	642
Debtors	12	60,813	45,919
Cash at bank and in hand		7,627	16,740
		69,077	63,301
Creditors, amounts falling due within one year	13	(63,151)	(54,673)
Net current assets		5,926	8,628
Total assets less current liabilities		36,102	43,482
Creditors amounts falling due greater than one year	14	(6,757)	(14,663)
Net assets excluding pension liability		29,345	28,819
Pension liability	15	(14,288)	(13,172)
Net assets		15,057	15,647
Capital and reserves			
Called up share capital	16,17	10	10
Capital contribution	17	10,000	10,000
Revaluation reserve	17	2,807	2,960
Profit and loss account	17	2,240	2,677
Total shareholders' funds	17,18	15,057	15,647

Approved by the Board of Directors on 22 March 2013 and signed on its behalf by

CA Giral
Director

The notes on pages 8 to 15 form an integral part of these financial statements

1 ACCOUNTING POLICIES

Basis of preparation
Colas Rail Limited is a limited company incorporated and domiciled in the United Kingdom The financial statements consolidate those of the Company and its share of interests in joint arrangements

The Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice

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

The Company is exempt from the requirement of FRS 1 "Cash flow statements" to prepare a cash flow statement as it is a wholly owned subsidiary undertaking and its cash flows are included within the consolidated cash flow of the Group Details of where to obtain the consolidated cash flow of the Group are disclosed in Note 20

The Directors have taken advantage of the exemption in FRS 8 "Related party transactions", paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings

Measurement convention
The financial statements of the Company have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the Companies Act 2006 and the historical cost convention except for the periodic revaluation of land and buildings

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

- Revaluation of freehold buildings and leasehold land and buildings, where the Directors have relied upon external valuations carried out by Matthews & Goodman LLP, a professionally qualified valuer, in accordance with the Appraisal and Valuation Standards of the Royal Institution of Chartered Surveyors

- Calculation of the actuarial position on the Company pension scheme where the Directors have instructed JLT Benefits Solutions Limited, to review the Company's FRS 17 pension valuation

Turnover
Turnover is measured at the fair value of consideration received or receivable, excluding value added tax, for goods and services supplied to external customers

As soon as the outcome of a long term contract can be assessed with reasonable certainty, contract turnover and costs are recognised in the profit and loss account in proportion to the stage of completion of the contract The stage of completion is assessed by reference to the stage of completion of the contract and by reference to surveys of work performed

Where the outcome of a contract cannot be assessed with reasonable certainty, turnover is recognised in proportion to the level of directly attributable contract costs incurred, with any expected loss on a contract being recognised immediately in the profit and loss account

Tangible Fixed Assets
Tangible fixed assets comprise land and buildings and plant and equipment Plant and equipment is stated at historical cost and are depreciated at rates calculated to write off the cost less estimated residual value, of each asset on a straight line basis over its anticipated useful life, as follows

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

Freehold buildings and leasehold land and buildings are revalued every five years in accordance with FRS 15 'Tangible Fixed Assets' with any resultant gains or losses being recognised in reserves The last valuation occurred on 31 December 2009

Revaluation of land and buildings is based on the estimated value in use, which is determined by discounting the estimated rental value of property based on comparable market data

Finance Leases
Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors

Stock
Stock is held at the lower of cost and net realisable value

Cash at bank and in hand
Cash at bank and in hand comprises cash in hand, deposits with banks and short-term liquid investments

Provisions for liabilities and charges
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated

Pensions

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised in the profit and loss account as incurred

Defined benefit plans

The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of the future benefit that employees have earned in return for their service in the current and prior periods, the benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted

The liability discount rate is the yield at the balance sheet date on AA rate corporate bonds that have maturity dates approximating to terms of the Company's obligations The calculation is performed by a qualified actuary using the projected unit credit method

Cumulative actuarial gains and losses were recognised in full in equity on adoption of FRS 17 on 1 January 2004 Actuarial gains and losses that arise subsequent to 1 January 2004 are recognised directly in equity in the year in which they arise

Taxation
The charge for current taxation is based on the results for the year as adjusted for items which are non-taxable or disallowed having taken into consideration capital allowances, indexation and available tax losses

Deferred tax is recognised, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised

Current tax is determined using rates and laws that have been enacted or substantively enacted by the balance sheet date and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

2 TURNOVER

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

	2012 £'000	2011 £'000
Turnover by geographical area		
United Kingdom	150,541	132,572

3 OPERATING PROFIT

	2012 £'000	2011 £'000
Operating profit is stated after charging		
Amortisation	65	65
Auditors' remuneration - audit of parent financial statements	-	18
Auditors' remuneration - audit of subsidiary financial statements	75	57
Auditors' remuneration - fees for other services	-	17
Depreciation	3,959	3,919
Operating lease charges	485	406

4 DIRECTORS' REMUNERATION

	2012 £'000	2011 £'000
Fees and other emoluments	1,636	254

5 STAFF COSTS

	2012 £'000	2011 £'000
Wages and salaries	39,743	36,823
Social security costs	4,246	3,881
Other pension costs	2,216	2,123
	46,205	42,827

Defined contribution pension contributions made during the year amounted to £816,000 (2011 £623,000)

	2012 Number	2011 Number
Average number of employees during the year (including directors)	836	769

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Bank and short term deposits	13	20
Expected return on pension scheme assets including interest on obligation	600	1,300
	613	1,320

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2012 £'000	2011 £'000
Obligations under finance leases	302	268
Amounts paid to group undertakings	258	263
	560	531

8 TAXATION

	2012 £'000	2011 £'000
UK corporation tax charge - current year	-	-
Deferred tax charge - current year	213	-
	213	-

No liability to UK corporation tax arises as explained below

	2012 £'000	2011 £'000
Profit on ordinary activities before taxation	3,539	1,947
Taxation on profit on ordinary activities at 24 per cent (2011 26 per cent)	(849)	(506)
Adjustment to tax charge in respect of previous periods	600	-
Capital allowances for period in excess of depreciation	4	353
Expenses not deductible for tax purposes	(6)	(103)
Tax losses and other timing differences	251	256
UK corporation tax charge	-	-

The deferred tax charge arises as follows

	2012 £'000	2011 £'000
Origination and reversal of timing differences	(213)	-
Deferred tax charge	(213)	-

8 TAXATION (continued)

At the balance sheet date, the Company had a total of £6 1m of tax losses not recognised (2011 £6 0m) In assessing the recognition of a deferred tax asset, the Directors considers whether it is probable that some portion or all of the deferred tax asset will be realised

The ultimate realisation of a deferred tax asset is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible The Directors consider the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment The amount of deferred tax assets considered realisable, however, could change in the near term if future estimates of projected taxable income during the carry forward period are revised The movements on such positions have been as follows

	2012	2011
Deferred tax asset	**£'000**	**£'000**
As at 1 January	4,752	4,752
Amount charged to the profit and loss account during the year	(213)	-
As at 31 December	4,539	4,752
The deferred tax asset is analysed as follows		
Capital allowances for period in excess of depreciation	3,088	3,187
Tax losses and other timing differences	1,451	1,565
	4,539	4,752

The current deferred tax asset which is anticipated to be utilised within one year of the balance sheet date is £586,000 (2011 £902,000)

9 INTANGIBLE ASSET

	2012	2011
Goodwill	**£'000**	**£'000**
Cost		
As at 1 January and 31 December	1,300	1,300
Amortisation		
As at 1 January	260	195
Charge for the year	65	65
As at 31 December	325	260
Net book value		
As at 31 December	975	1,040

10 TANGIBLE FIXED ASSETS

	Assets under construction £'000	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
As at 1 January 2012	-	8,187	41,317	49,504
Additions	128	153	906	1,187
Disposals	-	-	(4,082)	(4,082)
As at 31 December 2012	**128**	**8,340**	**38,141**	**46,609**
Depreciation				
As at 1 January 2012	-	2,427	13,263	15,690
Charge for the year	-	332	3,627	3,959
Disposals	-	-	(2,241)	(2,241)
As at 31 December 2012	**-**	**2,759**	**14,649**	**17,408**
Net book value				
As at 31 December 2012	**128**	**5,581**	**23,492**	**29,201**
As at 31 December 2011	-	5,760	28,054	33,814

The net book value of land and buildings comprises

	2012 £'000	2011 £'000
Freehold	1,542	1,569
Long leasehold	1,529	1,740
Short leasehold	2,510	2,451
	5 581	5 760

10 TANGIBLE FIXED ASSETS (continued)

All significant freehold and long leasehold properties were externally valued at 31 December 2009 by Matthews & Goodman LLP in accordance with Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors The basis of revaluation was existing use value The Directors do not believe that this valuation is impaired at the current balance sheet date

No provision is made for the tax liability which may arise in the event that certain properties are disposed of at their revalued amount on the basis that there is no intention or binding commitment to sell any property

The amount of land and buildings included at valuation, determined according to the historical cost convention, was as follows

	2012 £'000	2011 £'000
Cost	4,045	3,892
Depreciation	(1,109)	(946)
Net book value	2,936	2,946

The net book value of assets held under finance leases held at the balance sheet date is £12,302,000 (2011 £13,577,000)

11 STOCK

	2012 £'000	2011 £'000
Raw materials	637	642

12 DEBTORS

	2012 £'000	2011 £'000
Trade debtors	26,807	32,402
Amounts owed by group undertakings	15,248	-
Amounts recoverable on contracts	11,899	7,794
Deferred tax asset	4,539	4,752
Other debtors and prepayments	2,320	971
	60,813	45,919

Of the deferred tax asset of £4,539,000 at the balance sheet date (2011 £4,752,000), £3,953,000 (2011 £3,850,000) is forecast to be utilised in accounting periods commencing on or after 1 January 2014, with £586,000 (2011 £902,000) forecast to be utilised within one year

13 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012 £'000	2011 £'000
Trade creditors	8,904	36,074
Contract accruals	31,034	-
Payments on account	16,038	7,500
Obligations under finance leases and hire purchase contracts	2,911	1,687
Accruals and deferred income	2,228	2,022
Other taxation and social security	1,932	4,060
Amounts owed to group undertakings	104	3,330
	63,151	54,673

14 CREDITORS AMOUNTS FALLING DUE GREATER THAN ONE YEAR

	2012 £'000	2011 £'000
Amounts owed to group undertakings	3,000	8,000
Obligations under finance leases and hire purchase contracts		
Between one and two years	849	2,920
Between two and five years	2,596	2,524
More than five years	312	1,219
	6,757	14,663

15 PENSION LIABILITY

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

Obligations for contributions to defined contribution pension plans are recognised in the profit and loss account as incurred The valuations used have been based on the most recent valuations of the scheme as at 31 December 2007, and updated by the schemes' actuaries for the requirement to assess the present value of the liabilities of the scheme as at 31 December 2012

The financial assumptions used to calculate the defined benefit schemes' liabilities on a projected unit valuation method, are as follows

	2012	2011
	%	%
Discount rate	4 40	4 70
Inflation assumption	1 90	2 00
Rate of increase in salaries	1 90	3 00
Rate of increase in pensions in payment	1 90	2 00

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

Discount rate:

A discount rate of 4 4% has been adopted based on the AA bond index yield as an appropriate discount rate As at 31 December 2012, the pattern on yields varied for individual stocks, making a quantitative difference The Directors consider the rate adopted to be well within an acceptable market range

Inflation assumption:

An inflation assumption of 1 9% has been assumed

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

Rate of increase in salaries:

Based on market information a rate of 1 9% is assumed based on company experience of the previous three years in relation to the core inflation assumption and its projections for the coming years, with reference to an agreement made with members to cap future salary increases at CPI This agreement was made with members and trustees as part of finalising the 31 December 2010 actuarial valuation

Rate of increase of pensions in payment

A rate of increase of pensions in payment of 1 9% is assumed based on the inflationary expectations taking into account the Government decision to adopt CPI as the relevant index for the scheme

15 PENSION LIABILITY (continued)

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

	Expected rate of return expected as at 31 December 2012	Value as at 31 December 2012	Expected rate of return expected as at 31 December 2011	Value as at 31 December 2011
	%	£'000	%	£'000
Equities	6 80	92,500	8 20	112,400
Bonds	4 70	32,000	2 80	6,200
Property	6 30	8,900	6 70	8,500
Cash	4 70	100	2 80	400
Total market value of schemes' assets		133,500		127,500
Present value of schemes' liabilities		(152,300)		(145,300)
Deficit in the scheme		(18,800)		(17,800)
Related deferred tax asset		4,512		4,628
Net pension liability arising under FRS 17		(14,288)		(13,172)

The movement in the liability in the scheme during the year is as follows

	2012 £'000	2011 £'000
Liability in the scheme as at 1 January	(17,800)	(11,700)
Past service cost credit attributed to change of measure for determining salary increases	2,500	-
Current service cost	(1,600)	(1,600)
Contributions paid	1,400	1,500
Other financial income	600	1,300
Actuarial losses	(3,900)	(7,300)
Liability in the scheme as at 31 December	(18,800)	(17,800)

The history of experience gains and losses has been as follows

	2012 £'000	2011 £'000	2010 £'000
Difference between expected and actual return on scheme assets	900	(5,800)	(2,400)
Percentage of scheme liabilities	1%	(4%)	(2%)
Experience losses on scheme liabilities	(2,000)	(900)	3,200
Percentage of scheme liabilities	3%	-	2 %
Changes in the assumptions underlying the liabilities	(2,800)	(600)	1,300
Percentage of scheme liabilities	2%	-	1%
Total amount recognised in statement of total recognised gains and losses	(3,900)	(7,300)	(13,000)
Percentage of scheme liabilities	(3%)	(5%)	(9 %)

	2009 £'000	2008 £'000
Difference between expected and actual return on scheme assets	9,800	(29,700)
Percentage of scheme liabilities	7 %	(26%)
Experience losses on scheme liabilities	(1,700)	2,700
Percentage of scheme liabilities	(1 %)	2 %
Changes in the assumptions underlying the liabilities	(14,200)	(13,000)
Percentage of scheme liabilities	(10%)	(11%)
Total amount recognised in statement of total recognised gains and losses	(6,100)	(14,000)
Percentage of scheme liabilities	(4%)	(12 %)

16 CALLED UP SHARE CAPITAL

	2012 £'000	2011 £'000
Authorised		
15,000,000 ordinary shares of £1 each	15,000	15,000
Allotted, called up and fully paid·		
10,000 ordinary shares of £1 each	10	10

17 RESERVES

	Called up share capital £'000	Capital contribution £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
As at 1 January 2012	10	10,000	2,960	2,677	15,647
Profit on ordinary activities after taxation	-	-	-	3,326	3,326
Transfer	-	-	(153)	153	-
Actuarial losses on pension scheme	-	-	-	(3,900)	(3,900)
Deferred tax on actuarial losses	-	-	-	(16)	(16)
As at 31 December 2012	10	10,000	2,807	2,240	15,057

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
Profit on ordinary activities after taxation	3,326	1,947
Waiver of indebtedness with fellow group companies	-	3,337
Actuarial losses on company pension scheme	(3,900)	(7,300)
Deferred taxation on company pension scheme	(16)	1,400
Net decrease in shareholders' funds	(590)	(616)
Opening shareholders' funds	15,647	16,263
Closing shareholders' funds	15,057	15,647

19 OPERATING LEASES

Operating lease commitments, payable under non-cancellable operating leases which relate to land and buildings are as follows

	2012 £'000	2011 £'000
Within one year	485	389
Between two and five years	1,523	1,653
After more than five years	1,343	1,323
	3,351	3,365

20 IMMEDIATE AND ULTIMATE PARENT COMPANY

At the balance sheet date and on the date of approval of the financial statements, the immediate parent company was Colas Rail Holdings Limited, a company which is incorporated and operates in England and Wales

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