COMPANY NUMBER: 02995525

COLAS RAIL LIMITED

DIRECTORS' REPORT AND ACCOUNTS

YEAR ENDED 31 DECEMBER 2013

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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 Strategic Report for the year ended 31 December 2013.

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

Review of the Company's business
During the year, the Company maintained profitability and continued to win significant levels of new work across all parts of its business. It was also occupied with bidding for new work in anticipation of Control Period 5 which began on 1 April 2014.

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 provider of rail infrastructure services.The financial statements deal with the performance and position of the Company for the year ended 31 December 2013 and are shown on pages 6 and 7.

Turnover for the year was £185,878,000 which increased from £150,541,000 in 2012. This growth was driven by good performance in completion, execution and retention of existing work and by the winning of new opportunities.

The profit for the year on ordinary activities after taxation amounted to £2,450,000 (2012: £3,326,000).

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 SA, the ultimate parent company.

The principal risks faced by the Company are as follows:

- **Safety:** implementing effective health and safety management systems and working practices;
- **Regulatory Compliance:** Complying with applicable laws and regulations;
- **Customer Reliance:** Dependence on and volatility of client expenditure in the rail sector;
- **Supply Chain:** Managing a logistically complex and diverse national supply chain;
- **Project Execution:** Completing contracts to programme requirements;
- **Engaged Commercial Terms:** Forecasting accurately the financial outturn of contracts;
- **Talent Acquisition and Management:** Attracting and retaining skilled personnel.

Key performance indicators
A wide range of key performance indicators are monitored to measure the Company's performance over time. The main indicators are:
- **Safety**: where indicators show how successful the Company has been in protecting its employees from harm;
- **Regulatory Compliance**: where indicators measure the compliance with applicable regulation;
- **Supply Chain**: where indicators measure the number of suppliers and payment performance;
- **Engaged Commercial Terms:** where indicators measure the amount of work contracted for future periods.
- **Talent Acquisition and Management:** where indicators measure the number of permanent staff.

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. In the year ended 31 December 2013, the Company had a fatality and weighted injuries score of 0.04 (2012: 0.12). This compares to an industry average of 0.13 in 2013.

Regulatory Compliance
The Company is committed to full regulatory compliance. In the year ended 31 December 2013 the Company maintained regulatory compliance in the two key areas of Network Rail Principal Contractor status and the Railways and Other Guided Transport Systems (Safety) Regulations 2006.

Supply Chain
The Company practices ethical and sustainable procurement 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. In the year ended 31 December 2013, the Company used 974 different suppliers and subcontractors across the United Kingdom (2012: 1,126 suppliers and subcontractors) awarding work to the greatest operational extent possible to partipants who operate in the locality of its work.

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. The standard payment terms of the Company are 28 days which reflect the Company's commitment to its industry promise of the Fair Payment Charter.

At the balance sheet date the Company had 37 days (2012: 35 days) of trade and subcontract purchases outstanding.

Engaged Commercial Terms
Work contracted for future periods was in line with expecations at 31 December 2013. The Company's principal customer changes control period in 2014, significant tender activity was in progress at 31 December 2013.

Talent Acquisition and Management
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. Details on the number of employees in the Company are given in Note 5.

By order of the Board:

C Evans
Director
16 July 2014

The Directors present their report and the audited financial statements for the year ended 31 December 2013.

Directors
The Directors of the Company who served during the year ended 31 December 2013 and at that date are as follows:

CA Giral
C Evans
O Roubicek
S Haynes
J Dunn

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

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

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 throughout the year by a series of internal and external updates, including visits to operating sites to meet local management and to visit Colas Rail projects in the United Kingdom.

Dividend
The Directors do not recommend the payment of a dividend (2012: £Nil).

Political contributions
During the year the Company made no political contributions (2012: £Nil).

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:

C Evans
Director
16 July 2014

Statement of Directors' Responsibilities in respect of the Strategic Report, the Report of the Directors and the Financial Stateme

The Directors are responsible for preparing the Strategic Report, the Report of the Directors 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:

C Evans
Director
16 July 2014

We have audited the financial statements of Colas Rail Limited for the year ended 31 December 2013 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 Statement of Directors' Responsibilities 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 2013 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 Strategic Report, the Report of the Directors 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
16 July 2014

Profit and Loss Account	Note	2013 £'000	2012 £'000
Turnover	2	185,878	150,541
Cost of sales		(165,987)	(134,641)
Gross profit		**19,891**	**15,900**
Administrative expenses		(14,583)	(12,625)
Operating profit	3	**5,308**	**3,275**
Profit on sale of tangible fixed assets		3	211
Interest receivable and similar income	6	204	613
Interest payable and similar charges	7	(232)	(560)
Profit on ordinary activities before taxation		**5,283**	**3,539**
Taxation	8	(2,833)	(213)
Profit on ordinary activities after taxation		2,450	3,326

All the Company's activities during the year and prior 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	2013 £'000	2012 £'000
Profit on ordinary activities after taxation		2,450	3,326
Actuarial loss on company pension scheme	15, 17	(6,900)	(3,900)
Deferred taxation on company pension scheme		855	(16)
Total recognised losses		**(3,595)**	**(590)**

Note of Historical Cost Profit and Loss	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	5,283	3,539
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	177	85
Historical cost profit on ordinary activities before taxation	5,460	3,624

Balance Sheet as at 31 December 2013

	Note	2013	2012
Fixed assets		**£'000**	**£'000**
Intangible asset	9	1,902	975
Tangible fixed assets	10	30,701	29,201
		32,603	30,176
Current assets			
Stock	11	780	637
Debtors	12	31,147	60,813
Cash at bank and in hand		29,813	7,627
		61,740	69,077
Creditors: amounts falling due within one year	13	(59,573)	(63,151)
Net current assets		2,167	5,926
Total assets less current liabilities		34,770	36,102
Creditors: amounts falling due greater than one year	14	(2,908)	(6,757)
Net assets excluding pension liability		31,862	29,345
Pension liability	15	(20,400)	(14,288)
Net assets		**11,462**	**15,057**
Capital and reserves			
Called up share capital	16,17	10	10
Capital contribution	17	10,000	10,000
Revaluation reserve	17	2,630	2,807
Profit and loss account	17	(1,178)	2,240
Total shareholders' funds	17,18	**11,462**	**15,057**

Approved by the Board of Directors on 16 July 2014 and signed on its behalf by:

C Evans
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

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.

	2013 £'000	2012 £'000
Turnover by geographical area:		
United Kingdom	185,878	150,541

3 OPERATING PROFIT

	2013 £'000	2012 £'000
Operating profit is stated after charging:		
Amortisation	73	65
Auditors' remuneration - audit of subsidiary financial statements	75	75
Depreciation	3,915	3,959
Operating lease charges	638	485

4 DIRECTORS' REMUNERATION

	2013 £'000	2012 £'000
Fees and other emoluments	1,076	1,636

The fees and other emoluments of the highest paid director was £231,664 (2012: £227,225). The Company did not make any pension contributions on this director's behalf (2012: £Nil).

5 STAFF COSTS

	2013 £'000	2012 £'000
Wages and salaries	46,823	39,743
Social security costs	5,028	4,246
Other pension costs	2,693	2,216
	54,544	46,205

Defined contribution pension contributions made during the year amounted to £672,000 (2012: £816,000).

	2013 Number	2012 Number
Average number of employees during the year (including directors):	983	836

6 INTEREST RECEIVABLE AND SIMILAR INCOME

	2013 £'000	2012 £'000
Bank and short term deposits	4	13
Expected return on pension scheme assets including interest on obligation	200	600
	204	613

7 INTEREST PAYABLE AND SIMILAR CHARGES

	2013 £'000	2012 £'000
Obligations under finance leases	227	302
Amounts paid to group undertakings	5	258
	232	560

8 TAXATION

	2013 £'000	2012 £'000
UK corporation tax charge - current year	6	-
Deferred tax charge - current year	2,827	213
	2,833	213

Liability to UK corporation tax arises as explained below:

	2013 £'000	2012 £'000
Profit on ordinary activities before taxation	5,283	3,539
Taxation on profit on ordinary activities at 23.25 per cent (2012: 24 per cent)	(1,228)	(849)
Adjustment to tax charge in respect of previous periods	-	600
Capital allowances for period in excess of depreciation	(89)	4
Expenses not deductible for tax purposes	(3)	(6)
Tax losses and other timing differences	1,314	251
UK corporation tax charge	(6)	-

The deferred tax charge arises as follows:

	2013 £'000	2012 £'000
Origination and reversal of timing differences	(2,827)	(213)
Deferred tax charge	(2,827)	(213)

8 TAXATION (continued)

At the balance sheet date, the Company had a total of £5.6m of tax losses recognised (2012: £6.1m). 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:

	2013	2012
Deferred tax asset	**£'000**	**£'000**
As at 1 January	4,539	4,752
Amount charged to the profit and loss account during the year	(2,827)	(213)
As at 31 December	1,712	4,539

The deferred tax asset is analysed as follows:		
Capital allowances for period in excess of depreciation	1,549	3,088
Tax losses and other timing differences	163	1,451
	1,712	4,539

The current deferred tax asset which is anticipated to be utilised within one year of the balance sheet date is £306,000 (2012: £586,000)

9 INTANGIBLE ASSET

	2013	2012
Goodwill	**£'000**	**£'000**
Cost		
As at 1 January	1,300	1,300
Additions	1,000	-
As at 31 December	2,300	1,300
Amortisation		
As at 1 January	325	260
Charge for the year	73	65
As at 31 December	398	325
Net book value		
As at 31 December	**1,902**	**975**

10 TANGIBLE FIXED ASSETS

	Assets under construction £'000	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost				
As at 1 January 2013	128	8,340	38,141	46,609
Additions	39	259	5,118	5,416
Transfer	(118)	-	118	-
Disposals	-	-	(2,262)	(2,262)
As at 31 December 2013	**49**	**8,599**	**41,115**	**49,763**
Depreciation				
As at 1 January 2013	-	2,759	14,649	17,408
Charge for the year	-	401	3,514	3,915
Disposals	-	-	(2,261)	(2,261)
As at 31 December 2013	-	**3,160**	**15,902**	**19,062**
Net book value				
As at 31 December 2013	**49**	**5,439**	**25,213**	**30,701**
As at 31 December 2012	128	5,581	23,492	29,201

The net book value of land and buildings comprises:

	2013 £'000	2012 £'000
Freehold	1,513	1,542
Long leasehold	1,362	1,529
Short leasehold	2,564	2,510
	5,439	5,581

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:

	2013 £'000	2012 £'000
Cost	4,304	4,045
Depreciation	(1,320)	(1,109)
Net book value	2,984	2,936

The net book value of assets held under finance leases held at the balance sheet date is £11,104,000 (2012: £12,302,000).

11 STOCK

	2013 £'000	2012 £'000
Raw materials	780	637

12 DEBTORS

	2013 £'000	2012 £'000
Trade debtors	12,792	26,807
Amounts owed by group undertakings	7,391	15,248
Amounts recoverable on contracts	3,442	11,899
Deferred tax asset	1,712	4,539
Other social security and taxation	1,463	-
Other debtors and prepayments	4,347	2,320
	31,147	60,813

Of the deferred tax asset of £1,712,000 at the balance sheet date (2012: £4,539,000), £1,406,000 (2012: £3,953,000) is forecast to be utilised in accounting periods commencing on or after 1 January 2015, with £306,000 (2012: £586,000) forecast to be utilised within one year.

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £'000	2012 £'000
Trade creditors	11,362	8,904
Contract accruals	38,760	31,034
Payments on account	-	16,038
Obligations under finance leases and hire purchase contracts	849	2,911
Accruals and deferred income	2,076	2,228
Other taxation and social security	924	1,932
Amounts owed to group undertakings	5,602	104
	59,573	63,151

14 CREDITORS: AMOUNTS FALLING DUE GREATER THAN ONE YEAR

	2013 £'000	2012 £'000
Amounts owed to group undertakings	-	3,000
Obligations under finance leases and hire purchase contracts:		
Between one and two years	824	849
Between two and five years	2,084	2,596
More than five years	-	312
	2,908	6,757

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 2013 (previous valuation: 31 December 2007)

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

	2013	2012
	%	%
Discount rate	4.50	4.40
Inflation assumption	2.50	1.90
Rate of increase in salaries	2.50	1.90
Rate of increase in pensions in payment	2.50	1.90

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 4.5% has been adopted based on the AA bond index yield as an appropriate discount rate. As at 31 December 2013, 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 2.5% has been assumed.

On 8 July 2010, the Government announced that it was to move to 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 2.5% 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 2.5% 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 as at 31 December 2013	Value as at 31 December 2013	Expected rate of return as at 31 December 2012	Value as at 31 December 2012
	%	£'000	%	£'000
Equities	6.70	80,300	6.80	92,500
Bonds	2.70	48,600	4.70	32,000
Property	6.20	9,700	6.30	8,900
Cash	2.70	400	4.70	100
Total market value of schemes' assets		139,000		133,500
Present value of schemes' liabilities		(164,500)		(152,300)
Deficit in the scheme		(25,500)		(18,800)
Related deferred tax asset		5,100		4,512
Net pension liability arising under FRS 17		(20,400)		(14,288)

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

	2013 £'000	2012 £'000
Liability in the scheme as at 1 January	(18,800)	(17,800)
Past service cost credit attributed to change of measure for determining salary increases	-	2,500
Current service cost	(1,600)	(1,600)
Contributions paid	1,600	1,400
Other financial income	200	600
Actuarial losses	(6,900)	(3,900)
Liability in the scheme as at 31 December	(25,500)	(18,800)

The history of experience gains and losses has been as follows:

	2013 £'000	2012 £'000	2011 £'000
Difference between expected and actual return on scheme assets	1,600	900	(5,800)
Percentage of scheme liabilities	1%	1%	(4%)
Experience gains/(losses) on scheme liabilities	2,400	(2,000)	(900)
Percentage of scheme liabilities	2%	3%	-
Changes in the assumptions underlying the liabilities	(10,900)	(2,800)	(600)
Percentage of scheme liabilities	(7%)	(2%)	-
Total amount recognised in statement of total recognised gains and losses	(6,900)	(3,900)	(7,300)
Percentage of scheme liabilities	(4%)	(3%)	(5%)

	2010 £'000	2009 £'000
Difference between expected and actual return on scheme assets	(2,400)	9,800
Percentage of scheme liabilities	(2%)	7 %
Experience gains/(losses) on scheme liabilities	3,200	(1,700)
Percentage of scheme liabilities	2 %	(1 %)
Changes in the assumptions underlying the liabilities	1,300	(14,200)
Percentage of scheme liabilities	1%	(10%)
Total amount recognised in statement of total recognised gains and losses	(13,000)	(6,100)
Percentage of scheme liabilities	(9 %)	(4%)

16 CALLED UP SHARE CAPITAL

	2013 £'000	2012 £'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 2013	10	10,000	2,807	2,240	15,057
Profit on ordinary activities after taxation	-	-	-	2,450	2,450
Transfer	-	-	(177)	177	-
Actuarial losses on pension scheme	-	-	-	(6,900)	(6,900)
Deferred tax on actuarial losses	-	-	-	855	855
As at 31 December 2013	10	10,000	2,630	(1,178)	11,462

18 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2013 £'000	2012 £'000
Profit on ordinary activities after taxation	2,450	3,326
Actuarial losses on company pension scheme	(6,900)	(3,900)
Deferred taxation on company pension scheme	855	(16)
Net decrease in shareholders' funds	(3,595)	(590)
Opening shareholders' funds	15,057	15,647
Closing shareholders' funds	11,462	15,057

19 OPERATING LEASES

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

	2013 £'000	2012 £'000
Within one year	570	485
Between two and five years	1,643	1,523
After more than five years	1,710	1,343
	3,923	3,351

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 SA, 32 Avenue Hoche, 75008 Paris.